

STATE OF ARIZONA

FY 2018

Appropriations Report

June 2017

JLBC

FY 2018 APPROPRIATIONS REPORT

This annual *Appropriations Report* provides detailed information on FY 2018 appropriations, as provided in the General Appropriation Act (Laws 2017, Chapter 305) and other legislative acts. The *Report* also includes the economic and state revenue forecast upon which the budget was based. This *Report* provides information relative to the legislative intent of appropriations.

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BUDGET HIGHLIGHTS

HIGHLIGHTS OF THE FY 2018 BUDGET

The FY 2018 budget is based primarily upon the actions of the 53rd Legislature's 1st Regular Session. On May 12, 2017, the Governor signed into law the FY 2018 budget for the year beginning July 1, 2017.

The state's FY 2018 General Fund budget is \$9.82 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$39 billion. (*See the Summary of Appropriated Funds by Agency and Summary of Total Spending Authority for more details.*)

Revised FY 2017 Budget – At the time of publication of the FY 2017 Appropriations Report in June 2016 after the 52nd Legislature's 2nd Regular Session, the FY 2017 budget was anticipated to have a \$66 million ending balance. By January 2017, the projected FY 2017 ending balance had grown to \$114 million. The primary adjustments included:

- Increased balance forward from FY 2016 of \$284 million, or \$59 million above the original forecast.
- Increased FY 2016 revenue of \$7 million, reflecting \$10 million of increased revenues in the January consensus forecast offset by \$(3) million of revisions to tax law estimates.
- Increased FY 2016 expenditures of \$18 million, including \$17 million for higher-than-projected K-12 spending and \$1 million for higher-than-expected administrative adjustments.

As part of the FY 2018 budget, the Legislature approved additional changes to the FY 2017 budget, including \$65 million in one-time fund transfers from Medicaid-related funds in AHCCCS and \$8 million in supplemental spending for Proposition 206-related costs in the Department of Economic Security (DES).

Combined with the FY 2017 ending balance in January of \$114 million, the \$65 million of one-time revenues and \$8 million in supplemental spending is estimated to produce an FY 2017 ending balance of \$171 million. (*Please see the FY 2017 General Fund Adjustments section for further details.*)

Comparison to the JLBC Baseline – At the beginning of session, the JLBC Staff calculated the state's anticipated FY 2018 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$9.60 billion.

In comparison, the January Baseline Revenues were based on the 4-sector consensus projections. Excluding enacted statutory changes and one-time adjustments, base revenues

were forecast to grow 3.5% in FY 2017 and 3.9% in FY 2018. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$9.76 billion in FY 2018.

The Legislature adopted the Executive Budget estimates for FY 2018 as part of the final budget, increasing the base FY 2018 revenue growth from 3.9% to 4.3%. (The FY 2017 growth rate remained at 3.5%.) In addition, the budget assumed a \$8 million transfer associated with a settlement with Moody's. The budget also assumed the approval of tax legislation that would reduce revenues by \$(10) million. After further adjusting the estimates for the increase of the FY 2017 carry-forward from \$114 million to \$171 million, the FY 2018 General Fund budget was based on a revenue level of \$9.85 billion.

The Legislature also made subsequent revisions to the Baseline spending level of \$9.60 billion, which resulted in a final FY 2018 expenditure level of \$9.82 billion. The \$215 million in changes to the Baseline included the following:

Major Ongoing Increases to the Baseline

- \$38 million for a new K-12 results-based funding formula in the Arizona Department of Education (ADE).
- \$34 million for a 1.06% K-12 teacher salary increase.
- \$33 million for additional costs of Proposition 206 minimum wage requirements in AHCCCS and the Department of Economic Security (DES) Long Term Care programs, including the continuation of a new \$8 million FY 2017 supplemental.
- \$11 million for increased retirement rate costs in the Department of Corrections (ADC) and the Department of Public Safety (DPS).
- \$8 million for a new early literacy program in ADE.

Major Ongoing Decreases from the Baseline

- \$(30) million from fund-shifting additional AHCCCS spending to prescription drug rebates.
- \$(21) million from assuming greater net revertsments of unspent appropriations.
- \$(10) million from unallocated Executive reductions and efficiency savings.

Major One-Time Increases to the Baseline

- \$80 million to the School Facilities Board (SFB), including \$17 million for Building Renewal and \$63 million for the first part of a 2-year \$100 million appropriation to construct 6 new schools.

- \$25 million for increases to agency health insurance rates to increase Health Insurance Trust Fund (HITF) balance.
- \$15 million to the Universities.
- \$12 million to DES, including \$10 million for additional DD-related Proposition 206 costs and \$2 million for DD room and board increases.
- \$10 million to counties, including \$8 million to offset costs of Department of Juvenile Corrections cost-sharing and \$2 million for distribution to 3 mid-sized counties.

Under the JLBC Baseline, the FY 2018 budget was projected to have a \$159 million ending cash balance. The revenue changes and net spending reductions result in a FY 2018 projected ending cash balance of \$38 million. *(Please see the General Fund Balance discussion below.)*

(See FY 2018 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2018 changes.)

Comparison to the FY 2017 Budget – Besides the comparison with the JLBC Baseline, the FY 2018 budget can also be viewed relative to the FY 2017 budget. General Fund revenues, including one-time monies, are projected to increase from \$9.81 billion in FY 2017 to \$9.85 billion in FY 2018. After technical adjustments, the projected base growth is 4.3%, which will be further modified by the following revenue changes *(see the General Fund Revenue section)*:

- \$(107) million net loss from previously-enacted budget legislation.
- \$(10) million net loss from tax-related legislation enacted in the 2017 Legislative Session.
- \$(17) million loss due to increased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2018 budget also has a net \$179 million in one-time revenues (in comparison, FY 2017 one-time revenues were \$428 million due in part to a \$284 million beginning balance). The \$179 million amount reflects \$171 million in a FY 2017 carry-forward balance and \$8 million in a fund transfer associated with a Moody's settlement.

General Fund spending is projected to increase from \$9.63 billion in FY 2017 to \$9.82 billion in FY 2018, which is an increase of \$181 million, or 1.96%. Compared to the originally-budgeted FY 2017 total of \$9.61 billion, the FY 2018 budget increases spending by \$207 million, or 2.2%.

The FY 2018 budget includes the following changes compared to the FY 2017 budget, including supplemental changes:

- \$141 million for K-12 education changes (which includes 1.4% student growth and statutorily-mandated inflation increase of 1.31% in addition to results-based funding, 1.06% teacher salary increase, and removal of one-time FY 2017 spending).
- \$64 million in increased SFB spending, including \$63 million for the first year of new school construction of 6 schools and \$17 million for one-time building renewal grants, an increase of \$2 million from FY 2017.
- \$6 million in increased University funding, including \$15 million for one-time funds, a decrease of \$(4) million below FY 2017. This increase does not incorporate the \$27 million for the university infrastructure plan, which begins in FY 2019.
- \$24 million in increased AHCCCS spending, including \$39 million for formula adjustments (incorporating \$(30) million in drug rebate savings), and \$(24) million for a 1-year moratorium on the federal health insurer fee.
- \$1 million in increased DCS spending, including \$2 million for Adoption Subsidy caseload growth, \$1 million for expanded Grandparent Stipend eligibility to additional relatives, and \$(3) million for elimination of backlog privatization funding.
- \$48 million in increased DES spending, including \$19 million for DD formula spending and \$33 million for ongoing and one-time Proposition 206-related impacts in DD and Adult Services. The budget also removes \$(8) million for the FY 2017 Proposition 206 supplemental.
- \$21 million in ADC spending, including \$12 million for statewide adjustments and \$8 million for higher employer retirement expenses.
- \$(12) million in reduced DPS spending, including \$(15) million for the elimination of one-time Border Strike Task Force spending and \$3 million for higher employer retirement expenses.
- \$25 million for increases to agency health insurance rates to increase Health Insurance Trust Fund (HITF) balance.

(See FY 2018 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

General Fund Balance – Based on \$9.85 billion in revenue and \$9.82 billion in spending, the FY 2018 General Fund cash balance is projected to be a \$38 million balance.

Beyond its cash balance, a budget is also evaluated by the difference between ongoing revenues and expenditures. The state can have a cash balance but a shortfall in ongoing funds through the use of one-time revenue and/or expenditure savings. As part of its 3-year spending plan, the Legislature labels all funding as ongoing or one-

time. Using this legislative definition, the FY 2018 budget has a projected structural balance of \$20 million in FY 2018.

The ending cash and structural balance estimates do not reflect the Budget Stabilization Fund (BSF) reserve. The BSF is expected to have a balance of \$461 million at the end of FY 2018.

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

The enacted budget's 3-year spending plan provides estimates of FY 2019 and FY 2020 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-5 incorporates the FY 2019 and FY 2020 estimates, which were initially based upon Baseline revenue projections and existing statutory funding requirements. Based on legislative guidance, the FY 2019 and FY 2020 estimates also include the continuation of FY 2018 initiatives which were considered to be ongoing.

The figures reflected in the multi-year analysis on page BH-5 differ from the figures listed in the FY 2018 General Appropriation Act due to technical reasons such as the incorporation of bills with a fiscal impact signed into law after the passage of the budget bills. The General Appropriation Act gives JLBC Staff the authority to make such technical adjustments.

The General Appropriation Act forecasted total FY 2019 revenues to be \$10.07 billion and expenditures to be \$10.01 billion, with a \$58 million balance. After accounting for legislation enacted separately from the budget and technical adjustments, FY 2019 revenues are projected to be \$10.06 billion compared to spending of \$10.01 billion, both figures similar to the original forecast. The FY 2019 balance is estimated to be \$52 million, including the \$38 million FY 2018 ending balance. The structural balance for FY 2019 is estimated to be \$80 million.

The FY 2019 spending projection includes statutory formula caseload growth and removal of FY 2018 spending categorized as one-time in the FY 2018 budget process. FY 2019 ongoing revenues are primarily based on the Executive growth rate of 4.1%, but also incorporate separately enacted tax law changes. It also reflects new one-time spending, including \$56 million in one-time FY 2019 spending to complete SFB school construction

projects started in FY 2018 and start SFB projects projected to start in FY 2019.

The General Appropriation Act forecasted FY 2020 revenues to be \$10.52 billion and expenditures to be \$10.37 billion, with a \$157 million balance. After accounting for separately enacted legislation and technical adjustments, FY 2020 revenues are projected to be \$10.50 billion compared to spending of \$10.38 billion, both figures similar to the original forecast. The FY 2020 budget is estimated to have a \$122 million balance, including the \$52 million FY 2019 ending balance. The structural balance for FY 2020 is estimated to be \$15 million.

The FY 2020 spending includes statutory formula caseload growth and removal of one-time FY 2019 spending. FY 2020 ongoing revenues reflect the Executive budget base growth rate of 4.5%, further adjusted for previously enacted tax law changes. It also reflects new one-time spending, including \$42 million to complete SFB school construction projects projected to start in FY 2019.

Given the multiple years involved in these calculations, long-run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2018 through FY 2020 would change the ending balance calculations by \$625 million in the third year. As a result, these projections are subject to considerable change.

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

	FY 2017 Enacted	FY 2018 Enacted	FY 2019 Estimate	FY 2020 Estimate
REVENUES				
Ongoing Revenues	\$10,040,595,900	\$10,471,419,400	\$10,781,121,900	\$11,181,861,200
Previously Enacted Changes		(107,200,000)	(69,400,000)	(31,000,000)
Newly Enacted Changes		(9,982,800)	(9,596,200)	(4,598,300)
Urban Revenue Sharing	(663,582,200)	(680,770,100)	(680,860,200)	(698,850,600)
Net Ongoing Revenues	<u>\$9,377,013,700</u>	<u>\$9,673,466,500</u>	<u>\$10,021,265,500</u>	<u>\$10,447,412,300</u>
One-time Financing Sources				
Balance Forward	284,015,000	170,976,500	37,524,800	52,227,400
AHCCCS Behavioral Health Transfer	35,000,000			
Moody's Settlement Fund Transfer		8,172,700		
Prescription Rebate Fund Transfer	30,000,000			
Enacted FY 2017 Fund Transfers	79,361,600			
Subtotal One-time Revenues	<u>\$428,376,600</u>	<u>\$179,149,200</u>	<u>\$37,524,800</u>	<u>\$52,227,400</u>
Total Revenues	\$9,805,390,300	\$9,852,615,700	\$10,058,790,300	\$10,499,639,700
EXPENDITURES				
Operating Budget Appropriations	\$9,413,140,300	\$9,694,061,800	\$9,982,022,000	\$10,373,232,600
Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
Reversions	(140,000,000)	(140,682,500)	(140,682,500)	(140,682,500)
Subtotal Ongoing Expenditures	<u>\$9,373,140,300</u>	<u>\$9,653,379,300</u>	<u>\$9,941,339,500</u>	<u>\$10,332,550,100</u>
One-time Expenditures				
Capital Outlay	18,000,000	5,700,000	5,700,000	
Transportation Funding	86,500,000			
Operating One-Time Spending	139,467,800	180,142,500	59,523,400	45,493,000
FY 2017 One-Time Supplementals	17,305,700			
AHCCCS One-Time Savings		(24,130,900)		
Subtotal One-time Expenditures	<u>\$261,273,500</u>	<u>\$161,711,600</u>	<u>\$65,223,400</u>	<u>\$45,493,000</u>
Total Expenditures	\$9,634,413,800	\$9,815,090,900	\$10,006,562,900	\$10,378,043,100
Ending Balance <u>2/</u>	<u>\$170,976,500</u>	<u>\$37,524,800</u>	<u>\$52,227,400</u>	<u>\$121,596,600</u>
Structural Balance <u>3/</u>	<u>\$3,873,400</u>	<u>\$20,087,200</u>	<u>\$79,926,000</u>	<u>\$114,862,200</u>

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

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

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

GENERAL FUND BY MAJOR BUDGET UNITS
ONGOING FUNDING BY AGENCY

	<u>FY 2017 Enacted</u>	<u>FY 2018 Enacted</u>	<u>FY 2019 Estimate</u>	<u>FY 2020 Estimate</u>
EXPENDITURES				
Operating Budget				
-- Department of Administration	\$10,264,500	\$10,264,500	\$10,264,500	\$10,264,500
-- ADOA - Automation Projects Fund	4,581,600	5,000,000	5,000,000	5,000,000
-- AHCCCS	1,750,941,400	1,798,998,200	1,885,714,800	2,045,878,400
-- Attorney General	24,664,800	24,568,500	24,568,500	24,568,500
-- Department of Child Safety	379,179,400	379,374,800	379,374,800	379,374,800
-- Commerce Authority	21,800,000	21,800,000	21,800,000	21,800,000
-- Community Colleges	54,312,700	55,086,500	56,082,400	57,282,400
-- Department of Corrections	1,046,689,500	1,055,305,000	1,056,117,700	1,057,743,100
-- County Funding	6,000,500	6,000,500	6,000,500	6,000,500
-- Department of Economic Security	537,932,200	573,551,400	604,006,700	639,359,300
-- Department of Education	4,030,627,800	4,226,403,500	4,399,524,800	4,567,790,200
-- Department of Environmental Quality	2,823,600	2,823,600	2,823,600	2,823,600
-- Department of Health Services	86,553,600	86,650,800	86,650,800	86,650,800
-- Judiciary	109,069,000	110,215,400	110,553,000	110,553,000
-- Department of Juvenile Corrections	24,180,400	19,155,700	19,155,700	19,155,700
-- State Land Department	12,491,400	12,222,500	12,222,500	12,222,500
-- Department of Public Safety	106,095,700	108,654,600	108,654,600	138,654,600
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	6,000,000	5,000,000
-- Department of Revenue	29,998,300	30,507,700	30,507,700	30,507,700
-- School Facilities Board	189,515,800	188,096,300	152,621,800	150,205,100
-- Office of Tourism	7,112,000	7,112,000	7,112,000	7,112,000
-- Universities	679,472,400	685,130,700	712,129,800	709,649,900
-- Department of Water Resources	12,762,600	13,854,200	13,854,200	13,854,200
-- All Other Budgets	165,504,700	160,671,300	164,163,300	164,163,300
-- Civic Center Payment	20,449,000	22,499,000	22,996,300	23,500,000
-- Rio Nuevo Payment	10,000,000	10,000,000	10,000,000	10,000,000
-- Asset Sale/Lease-Back Debt Service	84,117,400	84,115,100	84,122,000	84,118,500
-- Efficiency Savings		(10,000,000)	(10,000,000)	(10,000,000)
Total - Operating Budget	<u>\$9,413,140,300</u>	<u>\$9,694,061,800</u>	<u>\$9,982,022,000</u>	<u>\$10,373,232,600</u>
-- FY 2017 One-Time Supplementals	17,305,700			
-- Capital Outlay	18,000,000	5,700,000	5,700,000	
-- Transportation Funding	86,500,000			
-- Operating One-Time Spending	139,467,800	180,142,500	59,523,400	45,493,000
-- AHCCCS One-Time Savings		(24,130,900)		
-- Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
-- Revertments	(140,000,000)	(140,682,500)	(140,682,500)	(140,682,500)
Total Spending	<u>\$9,634,413,800</u>	<u>\$9,815,090,900</u>	<u>\$10,006,562,900</u>	<u>\$10,378,043,100</u>

**DETAIL OF SMALL AGENCIES
ONGOING FUNDING BY AGENCY**

	<u>FY 2017</u> <u>Enacted</u>	<u>FY 2018</u> <u>Enacted</u>	<u>FY 2019</u> <u>Estimate</u>	<u>FY 2020</u> <u>Estimate</u>
Administrative Hearings, Office of	\$860,500	\$860,500	\$860,500	\$860,500
African-American Affairs Commission	125,000	125,000	125,000	125,000
Agriculture, Arizona Department of	9,162,700	9,356,300	9,356,300	9,356,300
Charter Schools, State Board for	1,185,200	1,185,200	1,185,200	1,185,200
Corporation Commission	611,600	611,600	611,600	611,600
Deaf and the Blind, Schools for the	21,378,100	21,378,100	21,378,100	21,378,100
Economic Opportunity, Office of	568,700	484,100	484,100	484,100
State Board of Education	1,094,000	1,142,800	1,142,800	1,142,800
Emergency & Military Affairs, Dept of	12,619,500	11,195,100	11,195,100	11,195,100
Equal Opportunity, Governor's Office of	189,100	189,100	189,100	189,100
Equalization, State Board of	643,000	643,000	643,000	643,000
Executive Clemency, Board of	952,600	952,600	952,600	952,600
Financial Institutions, Department of	2,978,200	2,153,200	2,153,200	2,153,200
Forestry and Fire Management, Department of	10,140,300	11,250,300	11,250,300	11,250,300
Gaming, Department of	1,779,500	1,779,500	1,779,500	1,779,500
Governor, Office of the	6,849,900	6,849,900	6,849,900	6,849,900
Gov's Ofc of Strategic Planning and Budgeting	1,994,000	1,994,000	1,994,000	1,994,000
Historical Society, Arizona	2,722,900	3,142,500	3,142,500	3,142,500
Historical Society, Prescott	824,500	824,500	824,500	824,500
Housing, Department of	811,400	811,400	811,400	811,400
Independent Redistricting Commission	1,115,300	0	0	0
Insurance, Department of	5,824,300	5,806,400	5,806,400	5,806,400
Legislature				
Auditor General	17,866,500	18,439,000	18,546,500	18,546,500
House of Representatives	13,201,500	13,201,500	13,201,500	13,201,500
Joint Legislative Budget Committee	2,488,300	2,488,300	2,488,300	2,488,300
Legislative Council	8,215,400	8,215,400	8,215,400	8,215,400
Senate	9,408,500	9,408,500	9,408,500	9,408,500
SUBTOTAL - Legislature	<u>\$51,180,200</u>	<u>\$51,752,700</u>	<u>\$51,860,200</u>	<u>\$51,860,200</u>
Mine Inspector, State	1,212,500	1,212,500	1,212,500	1,212,500
Navigable Stream Adjudication Commission	124,000	124,000	124,000	124,000
Postsecondary Education, Commission for	1,396,800	1,881,800	1,881,800	1,881,800
Radiation Regulatory Agency	1,563,100	773,400	773,400	773,400
Real Estate Department, State	2,994,900	2,994,900	2,994,900	2,994,900
Secretary of State	14,969,200	11,563,200	14,947,700	14,947,700
Tax Appeals, State Board of	266,600	266,600	266,600	266,600
Transportation, Department of	50,400	50,400	50,400	50,400
Treasurer, State	1,205,100	1,205,100	1,205,100	1,205,100
Tribal Relations, Governor's Office on	57,500	57,500	57,500	57,500
Veterans' Services, Department of	6,054,100	6,054,100	6,054,100	6,054,100
Total Spending	<u>\$165,504,700</u>	<u>\$160,671,300</u>	<u>\$164,163,300</u>	<u>\$164,163,300</u>

GENERAL FUND BY MAJOR BUDGET UNITS
COMBINED ONGOING AND ONE-TIME FUNDING BY AGENCY

	FY 2017 Enacted <u>w/ One-Times</u>	FY 2018 Enacted <u>w/ One-Times</u>	FY 2019 Estimate <u>w/ One-Times</u>	FY 2020 Estimate <u>w/ One-Times</u>
EXPENDITURES				
Operating Budget				
-- Department of Administration	\$10,264,500	\$10,365,300	\$10,264,500	\$10,264,500
-- ADOA - Automation Projects Fund	14,881,600	12,300,000	5,000,000	5,000,000
-- AHCCCS	1,750,941,400	1,775,264,100	1,885,714,800	2,045,878,400
-- Attorney General	24,664,800	26,344,200	26,068,500	26,068,500
-- Department of Child Safety	379,179,400	379,790,800	379,374,800	379,374,800
-- Commerce Authority	21,800,000	21,800,000	21,800,000	21,800,000
-- Community Colleges	54,312,700	55,086,500	56,082,400	57,282,400
-- Department of Corrections	1,046,689,500	1,067,624,800	1,056,117,700	1,057,743,100
-- County Funding	14,000,500	15,650,700	6,000,500	6,000,500
-- Department of Economic Security	538,272,200	586,110,300	604,006,700	639,359,300
-- Department of Education	4,086,457,000	4,226,958,400	4,399,524,800	4,567,790,200
-- Department of Environmental Quality	2,823,600	2,823,600	2,823,600	2,823,600
-- Department of Health Services	86,553,600	87,669,400	86,650,800	86,650,800
-- Judiciary	113,017,700	110,718,700	110,553,000	110,553,000
-- Department of Juvenile Corrections	24,180,400	19,549,800	19,155,700	19,155,700
-- State Land Department	12,715,900	12,365,900	12,222,500	12,222,500
-- Department of Public Safety	121,195,700	109,614,200	108,654,600	138,654,600
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	6,000,000	5,000,000
-- Department of Revenue	31,998,300	31,291,300	30,507,700	30,507,700
-- School Facilities Board	228,094,400	292,286,600	208,645,200	192,198,100
-- Office of Tourism	7,112,000	7,112,000	7,112,000	7,112,000
-- Universities	698,472,400	704,819,700	712,129,800	709,649,900
-- Department of Water Resources	13,012,600	16,001,900	15,854,200	15,854,200
-- All Other Budgets	168,707,200	165,895,300	164,163,300	164,163,300
-- Civic Center Payment	20,449,000	22,499,000	22,996,300	23,500,000
-- Rio Nuevo Payment	10,000,000	10,000,000	10,000,000	10,000,000
-- Asset Sale/Lease-Back Debt Service	84,117,400	84,115,100	84,122,000	84,118,500
-- Efficiency Savings		(10,000,000)	(10,000,000)	(10,000,000)
-- Unallocated Adjustments		15,800		
Total - Operating Budget	<u>\$9,569,913,800</u>	<u>\$9,850,073,400</u>	<u>\$10,041,545,400</u>	<u>\$10,418,725,600</u>
-- Capital Outlay	18,000,000	5,700,000	5,700,000	
-- Transportation Funding	86,500,000			
-- Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
-- Revertments	(140,000,000)	(140,682,500)	(140,682,500)	(140,682,500)
Total Spending	<u>\$9,634,413,800</u>	<u>\$9,815,090,900</u>	<u>\$10,006,562,900</u>	<u>\$10,378,043,100</u>

DETAIL OF SMALL AGENCIES
COMBINED ONGOING AND ONE-TIME FUNDING BY AGENCY

	FY 2017 Enacted <u>w/ One-Times</u>	FY 2018 Enacted <u>w/ One-Times</u>	FY 2019 Estimate <u>w/ One-Times</u>	FY 2020 Estimate <u>w/ One-Times</u>
Administrative Hearings, Office of	\$860,500	\$870,900	\$860,500	\$860,500
African-American Affairs Commission	125,000	125,800	125,000	125,000
Agriculture, Arizona Department of	9,162,700	9,563,700	9,356,300	9,356,300
Charter Schools, State Board for	1,185,200	1,200,600	1,185,200	1,185,200
Corporation Commission	2,611,600	621,500	611,600	611,600
Deaf and the Blind, Schools for the	21,378,100	21,932,000	21,378,100	21,378,100
Economic Opportunity, Office of	1,068,700	484,100	484,100	484,100
State Board of Education	1,094,000	1,153,600	1,142,800	1,142,800
Emergency & Military Affairs, Dept of	12,619,500	11,238,300	11,195,100	11,195,100
Equal Opportunity, Governor's Office of	189,100	191,900	189,100	189,100
Equalization, State Board of	643,000	646,400	643,000	643,000
Executive Clemency, Board of	952,600	963,500	952,600	952,600
Financial Institutions, Department of	2,978,200	2,201,000	2,153,200	2,153,200
Forestry and Fire Management, Department of	10,442,800	11,922,500	11,250,300	11,250,300
Gaming, Department of	1,979,500	1,779,500	1,779,500	1,779,500
Governor, Office of the	6,849,900	8,871,400	6,849,900	6,849,900
Gov's Ofc of Strategic Planning and Budgeting	1,994,000	2,014,600	1,994,000	1,994,000
Historical Society, Arizona	2,722,900	3,179,800	3,142,500	3,142,500
Historical Society, Prescott	824,500	840,200	824,500	824,500
Housing, Department of	811,400	830,000	811,400	811,400
Independent Redistricting Commission	1,115,300	0	0	0
Insurance, Department of	5,824,300	5,878,300	5,806,400	5,806,400
Legislature				
Auditor General	18,066,500	18,688,800	18,546,500	18,546,500
House of Representatives	13,201,500	13,419,100	13,201,500	13,201,500
Joint Legislative Budget Committee	2,488,300	2,513,800	2,488,300	2,488,300
Legislative Council	8,215,400	8,278,400	8,215,400	8,215,400
Senate	9,408,500	9,548,100	9,408,500	9,408,500
SUBTOTAL - Legislature	<u>\$51,380,200</u>	<u>\$52,448,200</u>	<u>\$51,860,200</u>	<u>\$51,860,200</u>
Mine Inspector, State	1,212,500	1,226,800	1,212,500	1,212,500
Navigable Stream Adjudication Commission	124,000	125,500	124,000	124,000
Postsecondary Education, Commission for	1,396,800	1,881,800	1,881,800	1,881,800
Radiation Regulatory Agency	1,563,100	787,600	773,400	773,400
Real Estate Department, State	2,994,900	3,028,000	2,994,900	2,994,900
Secretary of State	14,969,200	12,190,100	14,947,700	14,947,700
Tax Appeals, State Board of	266,600	268,300	266,600	266,600
Transportation, Department of	50,400	50,500	50,400	50,400
Treasurer, State	1,205,100	1,205,100	1,205,100	1,205,100
Tribal Relations, Governor's Office on	57,500	58,000	57,500	57,500
Veterans' Services, Department of	6,054,100	6,115,800	6,054,100	6,054,100
Total Spending	<u>\$168,707,200</u>	<u>\$165,895,300</u>	<u>\$164,163,300</u>	<u>\$164,163,300</u>

SUMMARY OF ONE-TIME SPENDING AND ONE-TIME SAVINGS

	Enacted FY 2017	Enacted FY 2018	Estimate FY 2019	Estimate FY 2020
Operating				
ADOA/Automation Projects Fund - ADE IT	\$ 7,300,000	\$ 7,300,000	\$ -	\$ -
ADOA/Automation Projects Fund - e-Procurement	3,000,000			
Agriculture - Equipment		61,000		
Attorney General - Criminal Division		1,500,000	1,500,000	1,500,000
Corporation Commission - IT Funding	2,000,000			
Counties - DJC Local Cost Sharing Offset	8,000,000	8,000,000		
Counties - \$550k Distribution (Pinal/Yavapai/Mohave)		1,650,200		
Economic Opportunity - Small Water Systems Fund Deposit	500,000			
DES - Domestic Violence Shelter (Maricopa/Yuma County)	100,000			
DES - ABLE Accounts	240,000			
DES - One-Time Prop 206 Funding		10,000,000		
DES - One-Time DD Room and Board		2,000,000		
ADE - District Sponsored Charter Schools	1,148,000			
ADE - Current Year Funding Backfill	31,000,000			
ADE - Small School Weight Hold Harmless	6,500,000			
ADE - Geographic Literacy	100,000			
ADE - Professional Development Pilot		300,000		
Forester - Inmate Fire Crew Carriers	190,000			
Forester - Wildland Fire Engines	112,500			
Forester - Fire Safety Communications		139,900		
Forester - Post Release Firefighting Crew		465,100		
Gaming - Breeders' Award	200,000			
Governor - Youth Success Fund Deposit		1,500,000		
Governor - School Leadership Training		250,000		
Governor - Computer Science Initiative		200,000		
Judiciary - Dependency Surge	3,000,000			
Judiciary - Information Technology Funding	948,700			
Legislature - Auditor General	200,000			
DPS - Border Security	14,600,000			
DPS - Testing Sexual Assault Kits	500,000			
DOR - Military Withholding Refunds	2,000,000			
SFB - Building Renewal Grants	15,000,000	17,167,900		
SFB - Public School Credit Enhancement Transaction Costs	500,000			
SFB - New School Construction (FY 17 Authorization)	23,078,600	23,078,600		
SFB - New School Construction (FY 18 Authorization)		63,929,800	37,989,800	
SFB - New School Construction (Conceptuals)			18,033,600	41,993,000
SOS - One-Time Operating Funding		500,000		
Universities - ASU	7,000,000	7,639,500		
Universities - NAU	4,000,000	3,202,800		
Universities - UA	8,000,000	4,157,700		
DWR - Water Protection Fund Deposit	250,000			
DWR - Drought Contingency Plan		2,000,000	2,000,000	2,000,000
Other - HITF Deposit		25,000,000		
Subtotal - Operating Funding	\$ 139,467,800	\$ 180,142,500	\$ 59,523,400	\$ 45,493,000
AHCCCS - One-time Health Insurer Fee Savings		\$ (24,130,900)		
Capital Outlay				
Capital - ADOA - Projects	8,000,000	5,700,000	5,700,000	
Capital - Veterans Home Flagstaff	10,000,000			
Subtotal - Capital Outlay	\$ 18,000,000	\$ 5,700,000	\$ 5,700,000	\$ -
Supplementals				
ADE - Funding Formula Requirements	17,081,200			
Land Department - Central Arizona Project User Fees	224,500			
Subtotal - Supplementals	\$ 17,305,700	\$ -	\$ -	\$ -
Transportation Funding				
Highway Projects	56,500,000			
Local HURF - General Fund Deposit	30,000,000			
Subtotal - Transportation Funding	\$ 86,500,000	\$ -	\$ -	\$ -
Total - One-time Spending	\$ 261,273,500	\$ 161,711,600	\$ 65,223,400	\$ 45,493,000

ENACTED BUDGET 4-YEAR ANALYSIS

\$ in Millions

		FY 2017 Enacted	FY 2018 Enacted	FY 2019 Estimate	FY 2020 Estimate
1	Beginning Balance	\$ 284.0	\$ 171.0	\$ 37.3	\$ 51.9
Ongoing Revenues					
2	Ongoing Revenues - January Baseline	9,377.0	9,646.4	10,007.7	10,466.7
3	Adopt Executive Revenue Estimate		37.0	33.1	4.9
4	Personal Exemption - FY 18: \$2,150 / FY 19: \$2,200 / FY 20: Index (Ch. 299)		(6.8)	(13.5)	(16.3)
5	Reduce Ongoing Judiciary Transfers		(0.4)	(0.4)	(0.4)
6	Income Tax Subtraction; ADA Retrofits (Ch. 278)			(1.3)	(1.3)
7	Angel Investor Tax Credit Cap (Ch. 319)		(0.8)	(1.7)	(2.5)
8	Appraisal Fees Into General Fund (Ch. 334)		0.7	0.7	0.7
9	Redirect NEMF Fees From General Fund (Ch. 43)		(2.5)	(2.5)	(2.5)
10	Omnibus Tax Bill (Ch. 340)			(0.8)	(1.7)
11	Captive Insurance; Fund (Ch. 281)		(0.1)	(0.1)	(0.1)
12	Subtotal - Ongoing Revenues	\$ 9,377.0	\$ 9,673.5	\$ 10,021.2	\$ 10,447.5
One-Time Revenues					
13	FY 2017 Enacted Fund Transfers	79.4			
14	AHCCCS Behavioral Health Transfer	35.0			
15	Fund Transfer - Moody's Settlement		8.2		
16	Fund Transfer - Prescription Drug Rebate Fund	30.0			
17	Subtotal - One-Time Revenues (Including Beginning Balance)	\$ 428.4	\$ 179.2	\$ 37.3	\$ 51.9
18	Total Revenues	\$ 9,805.4	\$ 9,852.7	\$ 10,058.5	\$ 10,499.4
19	JLBC Baseline - Ongoing Spending	\$ 9,365.0	\$ 9,600.1	\$ 9,817.1	\$ 10,154.9
Ongoing Changes to JLBC Baseline					
20	AHCCCS - Prescription Drug Rebate Shift		(30.0)	(30.0)	(30.0)
21	AHCCCS - Prescription Drug Review Initiative		Other Fund - \$221k	Other Fund - \$221k	Other Fund - \$221k
22	AHCCCS - Adult Dental Services		Other Fund - \$1.5 M	Other Fund - \$1.5 M	Other Fund - \$1.5 M
23	AHCCCS - Prop 206 Costs		9.7	11.4	14.0
24	AHCCCS - FY 2020 KidsCare Freeze Adjustment				14.5
25	AHCCCS - Occupational Therapy (\$130k)		0.1	0.1	0.1
26	Agriculture - Meat and Poultry Inspector (\$85k)		0.1	0.1	0.1
27	Agriculture - Veterinarian/Inspectors (Ch. 280)		0.3	0.3	0.3
28	Agriculture - NEMF Shift to Other Fund (Ch. 43)		(0.2)	(0.2)	(0.2)

ENACTED BUDGET 4-YEAR ANALYSIS

\$ in Millions

		FY 2017 Enacted	FY 2018 Enacted	FY 2019 Estimate	FY 2020 Estimate
29	DCS - Adoption Services		2.0	2.0	2.0
30	DCS - Removal of Ongoing Backlog Privatization		(2.7)	(2.7)	(2.7)
31	DCS - Family Stipend (Kinship)		1.0	1.0	1.0
32	Community Colleges - Formula (Rural County Allocation)		(0.1)	(0.1)	(0.1)
33	Community Colleges - Gila County Workforce (\$250k/\$200k/\$200k)		0.3	0.2	0.2
34	Corrections - 1,000 Beds Annualization		(4.0)	(4.0)	(4.0)
35	Corrections - Medicaid Savings		(2.5)	(2.5)	(2.5)
36	Corrections - Inmate Health Care Growth		1.5	1.5	1.5
37	Corrections - Kingman Prison Refinance Savings		(2.1)	(2.1)	(2.1)
38	Corrections - Recidivism Reduction Initiatives		0.5	0.5	0.5
39	Corrections - Retirement Adjustment		8.4	8.4	8.4
40	DES - Prop 206 Costs	8.1	23.3	27.2	33.0
41	DES - Adult Protective Services Backfill/New Staff		Health Lot. - \$2.0 M	Health Lot. - \$2.0 M	Health Lot. - \$2.0 M
42	DES - DD Early Intervention Program		2.0	2.0	2.0
43	SBE - Attorney General ISA from ADE (\$50k)		0.1	0.1	0.1
44	ADE - Formula (FY 18 Baseline Growth = \$79.3 M)		(3.4)	(3.4)	(3.4)
45	ADE - Results-Based Funding		37.6	37.6	37.6
46	ADE - 1.06% Teacher Salary Increase (Additional 1.06% In FY 19)		34.0	68.0	68.0
47	ADE - Early Literacy		8.0	12.0	12.0
48	ADE - Move ISA Funding to Board of Education (\$50k)		(0.1)	(0.1)	(0.1)
49	ADE - Jobs for Arizona's Graduates		0.1	0.1	0.1
50	ADE - JTED completion Grants		1.0	1.0	1.0
51	ADE - School Resource Officers		0.5	0.5	0.5
52	DEMA - NEMF Shift to Other Fund (Ch. 43)		(1.4)	(1.4)	(1.4)
53	DFI - Fund Shift		(1.5)	(1.5)	(1.5)
54	DFI - Appraisal Fund Shift to General Fund (Ch. 334)		0.7	0.7	0.7
55	Forestry - Firefighter Safety Communications		\$30k	\$30k	\$30k
56	Forestry - Deputy Fire Marshal		0.1	0.1	0.1
57	Forestry - Post Release Firefighting Crew		1.0	1.0	1.0
58	DHS - Reduce Operating Budget		(2.8)	(2.8)	(2.8)
59	DHS - Increase Arizona State Hospital (ASH) Funding		2.8	2.8	2.8
60	DHS - Renal Transplant Drugs (\$183k)		0.2	0.2	0.2
61	Independent Redistricting Commission - Work Completed		(1.1)	(1.1)	(1.1)
62	Judiciary - Court of Appeals - Division I Staff (\$149k)		0.1	0.1	0.1
63	Judiciary - Court of Appeals - Division II Staff (\$87k)		0.1	0.1	0.1
64	Judiciary - Full-time Water Master		\$31k	\$31k	\$31k

ENACTED BUDGET 4-YEAR ANALYSIS

\$ in Millions

		FY 2017 Enacted	FY 2018 Enacted	FY 2019 Estimate	FY 2020 Estimate
65	Judiciary - Probation Caseload		0.5	0.5	0.5
66	Judiciary - Court Ordered Removals (FY 18 - \$75k/FY 19 - \$315k)		0.1	0.3	0.3
67	DJC - Spending Reduction		(5.0)	(5.0)	(5.0)
68	Legislature - Auditor General - Special Investigative Unit		0.6	0.7	0.7
69	Postsecondary Ed. - MSSE Teacher Loan Program (\$250k)		0.3	0.3	0.3
70	Postsecondary Ed. - College Readiness (\$235k) (Ch. 304)		0.2	0.2	0.2
71	DPS - Retirement Adjustment (Plus HURF)		2.6	2.6	2.6
72	Radiation Regulatory Agency - Shift NEMF to Other Fund (Ch. 43)		(0.8)	(0.8)	(0.8)
73	Treasurer - ESA Administration (\$225k)/Management Fund (\$100k)		Other Fund - \$325k	Other Fund - \$325k	Other Fund - \$325k
74	Universities - Bonding Proposal		Start Pymt in FY 19	27.0	27.5
75	Universities - UA - Geological Survey (\$941k) (Ch. 285)		0.9	0.9	0.9
76	DWR - Geographic Information System (GIS) Personnel		0.1	0.1	0.1
77	DWR - General Streams Adjudications Personnel		0.5	0.5	0.5
78	DWR - Legal Support for Adjudications & CO River		0.1	0.1	0.1
79	DWR - Active Area Management Personnel		0.2	0.2	0.2
80	DWR - Continue Water Protection Fund Deposit		0.3	0.3	0.3
81	Other - Admin Adjustments/Revertments		(20.7)	(20.7)	(20.7)
82	Other - Executive Reductions/Efficiency Savings		(10.0)	(10.0)	(10.0)
83	Other - Named Claimants	\$9k			
84	Other - Reduce DPS for Local HURF in FY 20		\$30 M - HELP Fund	\$30 M - HELP Fund	30.0
85	Subtotal - Ongoing Changes to JLBC Baseline	\$ 8.1	\$ 53.5	\$ 124.3	\$ 177.7
86	Total Ongoing Spending	\$ 9,373.1	\$ 9,653.6	\$ 9,941.4	\$ 10,332.6
87	JLBC Baseline One-Time Spending	\$ 261.3	\$ 1.4	\$ 25.7	\$ 62.1
	One-Time Changes to JLBC Baseline				
88	ADOA/APF - CHILDS Funding (\$5 M Baseline)		Other Fund - \$6.1 M		
89	ADOA/APF - DOR IT Funding		Other Fund - \$11.0 M		
90	Agriculture - Equipment (\$61k) (Ch. 280)		0.1		
91	AHCCCS/DES - Prop 206 Network Adequacy Study		Other Fund - \$0.2 M		
92	Arts - BSF Interest		Other Fund - \$1.5 M		
93	Attorney General - Criminal Division (Through FY 20)		1.5	1.5	1.5
94	Counties - Continue \$8 M DJC Offset		8.0		
95	Counties - \$550k Distribution (Pinal/Yavapai/Mohave)		1.7		
96	DES - Additional Prop 206 DD Costs		10.0		

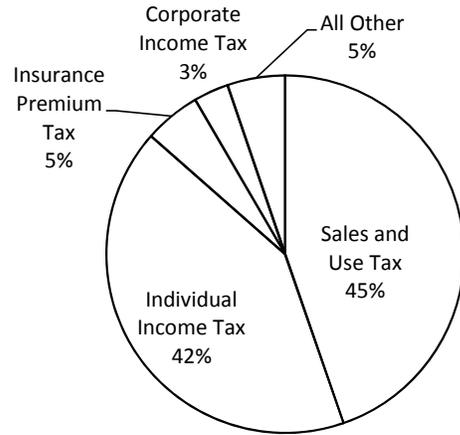
ENACTED BUDGET 4-YEAR ANALYSIS

\$ in Millions

		FY 2017 Enacted	FY 2018 Enacted	FY 2019 Estimate	FY 2020 Estimate
97	DES - DD Room and Board Rate Increase		2.0		
98	ADE - IT Funding		7.3		
99	ADE - Broadband for Education Initiative		Other Fund - \$3 M		
100	ADE - Geographic Literacy		0.1		
101	ADE - Small Rural Schools (BSF Interest)		Other Fund - \$2.6 M		
102	ADE - Teacher Professional Development Pilot (Ch. 284)		0.3		
103	DEQ - WQARF Funding (Baseline = \$7.0 M / \$15.0 M Total)		Other Fund - \$8.0 M		
104	Forestry - Firefighter Safety Communications		0.1		
105	Forestry - Post Release Firefighting Crew		0.5		
106	Gaming - Racing Division - Breeders' Award (\$250k)		Other Fund - \$250k		
107	Governor - Computer Science Initiative		0.2		
108	Governor - School Leadership Training (\$250k)		0.3		
109	Judiciary - Drug Treatment Alternative to Prison (Pima County)		Other Fund - \$250k		
110	DPS - Sexual Assault Kit Testing		Redirect GF - \$1.2 M		
111	SFB - Building Renewal Grants		17.2		
112	SFB - New Construction - Remove JLBC Baseline (Based on June SFB Report)			(25.7)	(62.1)
113	SFB - New Construction Projects (FY 18 Starts)		62.9	38.0	
114	SFB - New Construction Projects (FY 19 and FY 20 Conceptual Approvals)			18.0	42.0
115	Secretary of State - One-Time Operating Funding		0.5		
116	Universities - One-time Funding - ASU (w/ \$1 M Freedom School Allocation)		7.6		
117	Universities - One-time Funding - NAU		3.2		
118	Universities - One-time Funding - UA (w/ \$1 M Freedom School Allocation)		4.2		
119	Water Resources - Drought Contingency Plan		2.0	2.0	2.0
120	Other - ADOA - HITF Employer Contribution		25.0		
121	Capital - ADOA - Projects		5.7	5.7	
122	Subtotal - One-Time Changes to JLBC Baseline	\$ -	\$ 160.4	\$ 39.5	\$ (16.6)
123	Total One-Time Spending	\$ 261.3	\$ 161.8	\$ 65.2	\$ 45.5
124	Total Spending	\$ 9,634.4	\$ 9,815.4	\$ 10,006.6	\$ 10,378.1
125	Ending Cash Balance	\$ 171.0	\$ 37.3	\$ 51.9	\$ 121.3
126	Structural Balance	\$ 3.9	\$ 19.9	\$ 79.8	\$ 114.9

FY 2018 General Fund Revenue - Where It Comes From

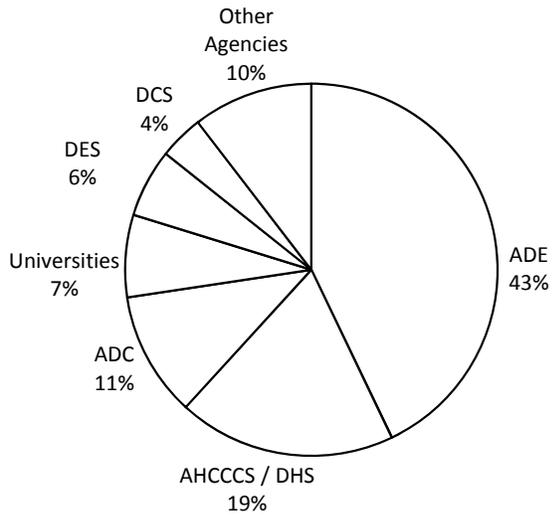
Source	Revenue (Millions)
Sales and Use Tax	\$ 4,632.3
Individual Income Tax	4,331.0
Insurance Premium Tax	529.7
Corporate Income Tax	328.0
Other Ongoing	533.2
One-Time Revenues	8.2
TOTAL REVENUE	\$ 10,362.4 ^{1/2/}



^{1/} Does not include beginning balance of \$171 million.
^{2/} \$681 million of this amount is distributed as urban revenue sharing.

FY 2018 General Fund Appropriations - Where It Goes

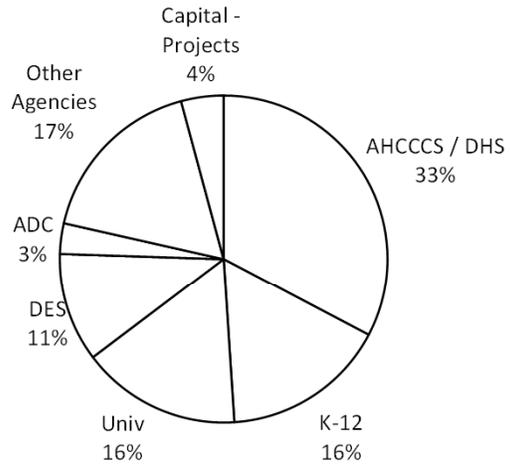
Budget Unit	Appropriation (Millions)
K-12 Education (ADE)	\$ 4,227.0
AHCCCS / DHS	1,862.9
Corrections	1,067.6
Universities	704.8
Economic Security	586.1
Child Safety	379.8
Other Agencies	1,027.6
TOTAL BUDGET	\$ 9,855.8 ^{1/}



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

FY 2018 Total Spending - All Sources ^{1/}

Budget Unit	Spending (Millions)
AHCCCS / DHS	\$ 12,747.1
K-12 Education (ADE)	6,333.8
Universities	6,137.3
Economic Security	4,214.2
Corrections	1,177.0
Other Agencies / Distributions	6,731.0
Capital - Projects	1,632.2
TOTAL	<u>\$ 38,972.6</u> ^{2/}

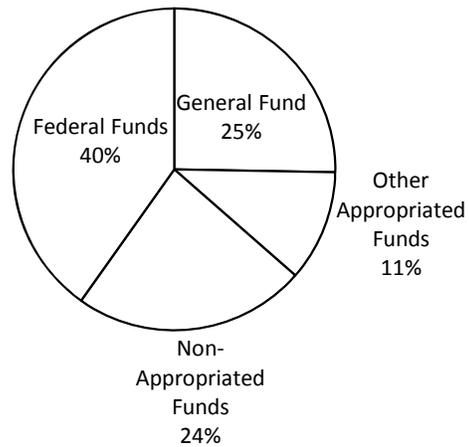


^{1/} Does not include administrative adjustments and revertsments.

^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

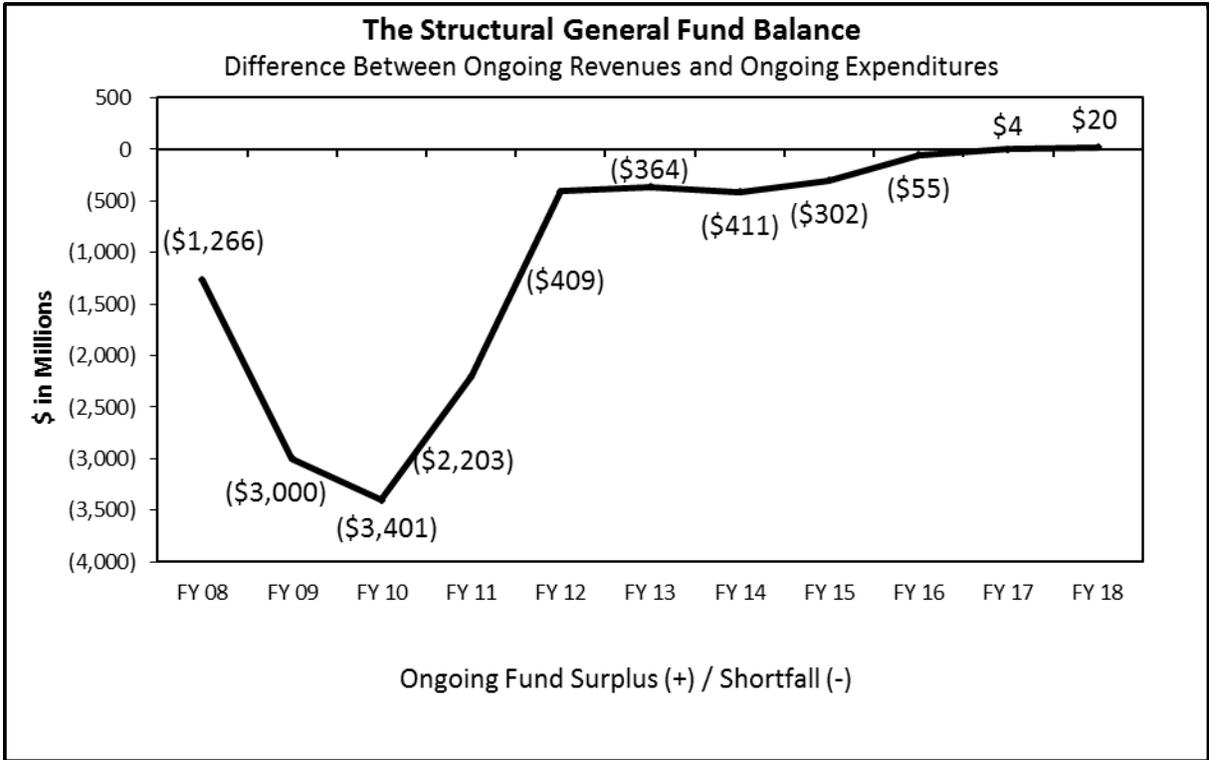
FY 2018 Total Spending by Fund Source ^{1/}

Fund Source	Spending (Millions)
General Fund	\$ 9,855.8
Other Appropriated Funds	4,351.3
Non-Appropriated Funds	9,103.1
Federal Funds	15,662.4
TOTAL	<u>\$ 38,972.6</u> ^{2/}



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

^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

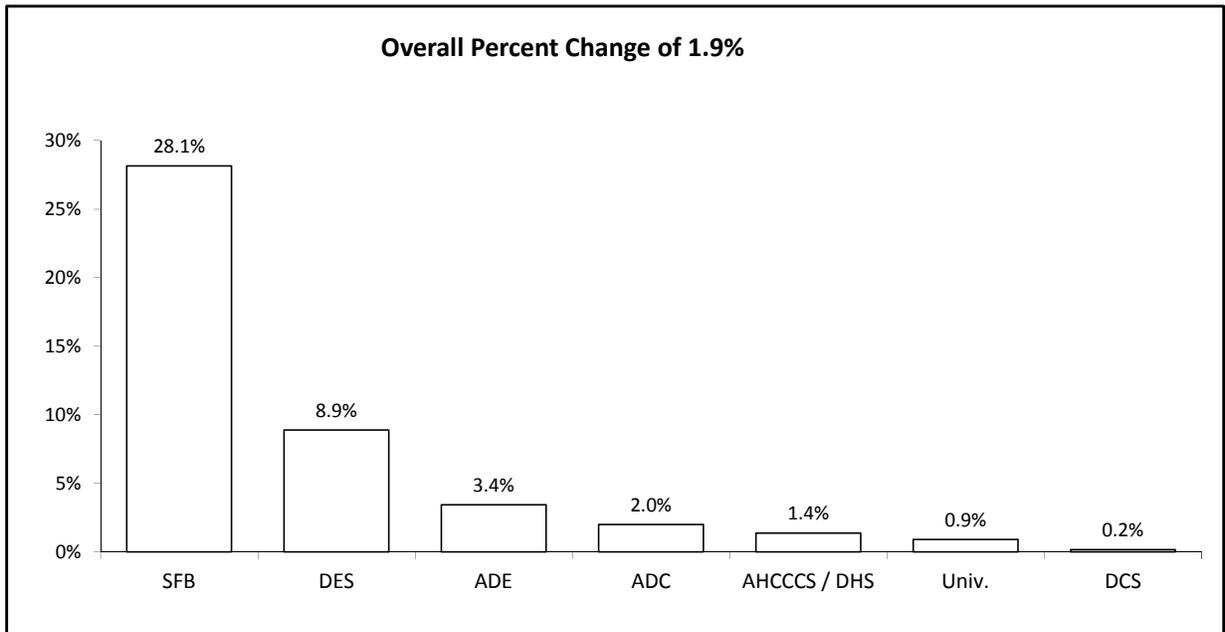
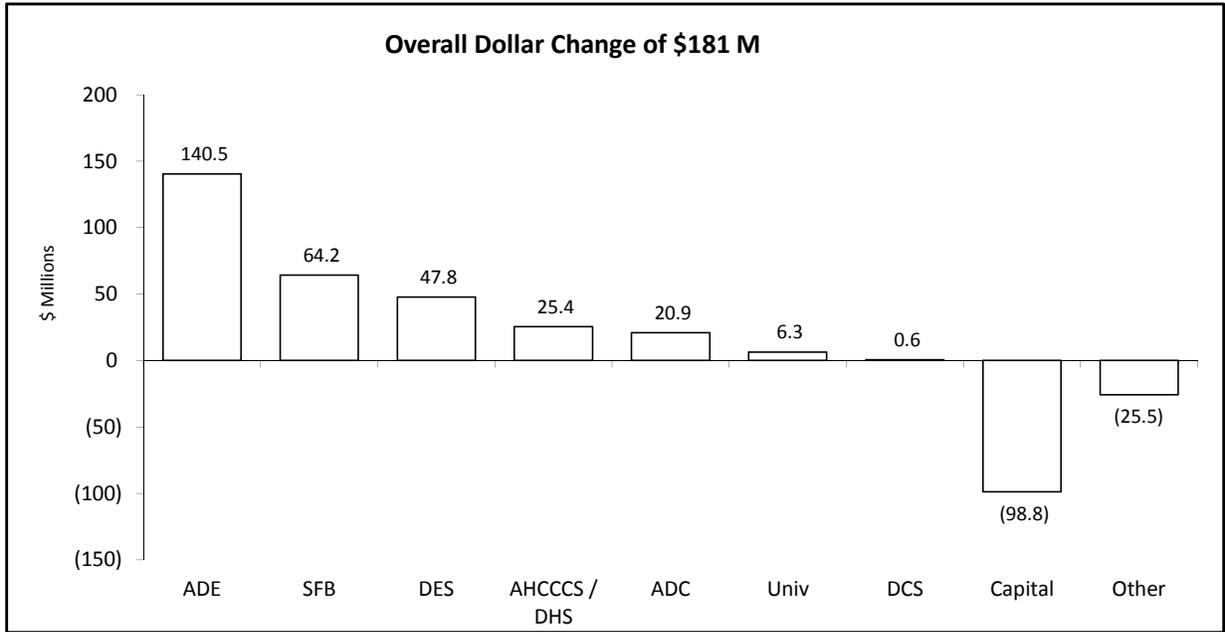


**Recent History of Appropriated Ongoing
General Fund Structural Balance ^{1/}
(\$ in Millions)**

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
2008	8,765	10,031	(1,266)
2009	6,967	9,967	(3,000)
2010	6,297	9,698	(3,401)
2011	7,191	9,394	(2,203)
2012	7,789	8,198	(409)
2013	8,144	8,508	(364)
2014	8,361	8,772	(411)
2015	8,926	9,228	(302)
2016	9,217	9,272	(55)
2017	9,377	9,373	4
2018	9,673	9,653	20

^{1/} Excludes one-time revenues and expenditures.

Changes to Major Agencies' General Fund Budget 1/ FY 2017 to FY 2018



1/ Represents change in General Fund spending from FY 2017 (including supplementals and ex-appropriations) to FY 2018. Excludes changes in Administrative Adjustments and Revertments.

FY 2018 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

General Fund Cash Balances

- Given forecasted FY 2017 General Fund revenues of \$9.81 billion and spending of \$9.63 billion, the budget has a projected FY 2017 balance of \$171 million. Given forecasted FY 2018 General Fund revenues of \$9.85 billion and spending of \$9.82 billion, the budget has a projected FY 2018 balance of \$38 million.
- Under the 3-year budget projections, there would be a balance of \$52 million in FY 2019 and \$122 million in FY 2020.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve of approximately \$460 million.

General Fund Structural Balances

- The General Fund structural balance is the difference between ongoing General Fund revenues and expenditures, as labeled by the enacted budget's multi-year spending plan.
- Given forecasted FY 2017 ongoing General Fund revenues of \$9.38 billion and ongoing spending of \$9.37 billion, the budget has a projected FY 2017 structural balance of \$4 million.
- Given forecasted FY 2018 ongoing General Fund revenues of \$9.67 billion and ongoing spending of \$9.65 billion, the budget has a projected FY 2018 structural balance of \$20 million.
- Under the 3-year budget projections, there would be a structural balance of \$80 million in FY 2019 and \$115 million in FY 2020.

General Fund Revenues

- Projected FY 2018 revenues are \$9.85 billion, which assumes:
 - ⇒ Base revenues would grow by \$431 million, or 4.3%.
 - ⇒ The beginning balance would decrease by \$(113) million, from \$284 million at the beginning of FY 2017 to \$171 million at the start of FY 2018.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would increase from \$664 million to \$681 million, thereby decreasing state revenue by \$(17) million.
 - ⇒ A decrease of \$(10) million for newly tax law enacted changes, including an increase in the personal exemption to \$2,150 in TY 2017.
 - ⇒ Previously enacted tax and revenue legislative changes would reduce state revenue by \$(107) million, primarily from a reduction in corporate income taxes.
 - ⇒ Fund transfers would decrease by \$(136) million as a result of removing one-time transfers from the Health Insurance Trust Fund, AHCCCS' Prescription Drug Rebate Fund, and AHCCCS' Behavioral Health Services Fund.
 - ⇒ Overall net revenues would increase in FY 2018 by \$47 million, or 0.5%, from \$9.81 billion in FY 2017 to \$9.85 billion in FY 2018.

General Fund Spending

- FY 2018 General Fund spending is projected to be \$9.82 billion, an increase of \$181 million, or 1.9%, above FY 2017.
- The entire FY 2018 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$39 billion.

Education

Department of Education

- ADE General Fund spending increases by \$140.5 million, or 3.4%, including:
 - ⇒ \$88.3 million for 1.4% student growth, for a total student count of 1.12 million.
 - ⇒ \$17.6 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$79.5 million for a 1.31% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(67.3) million for offsets due to new construction property taxes and higher endowment earnings.
 - ⇒ \$(52.1) million for statutory expiration of current year funding, multisite charter small school weights, Joint Technical Education District (JTED) funding for high school graduates, and district-sponsored charter schools.
 - ⇒ \$5.0 million for new college credit by examination incentive program, as authorized in the FY 2017 budget.
 - ⇒ \$34.0 million for a 1.06% teacher salary increase, followed by an additional 1.06% increase in FY 2019 (for a total of 2.12%).
 - ⇒ \$37.6 million for a new Results-Based Funding program.

- ⇒ \$8.0 million for a new Early Literacy program.
- ⇒ \$1.0 million for JTED completion grants.
- ⇒ \$900,000 for school resource officers, a one-time teacher professional development pilot program, and the Jobs for Arizona's Graduates program.
- ⇒ \$86,600 for standard changes and miscellaneous items.
- ⇒ \$(12.2) million for a one-time FY 2017 base adjustment.
- The budget continues to defer \$930.7 million in General Fund spending for school district payments from FY 2018 to FY 2019.
- The budget also includes \$2.6 million from Budget Stabilization Fund (BSF) interest earnings for one-time assistance to rural school districts and charter schools.

School Facilities Board

- SFB General Fund spending increases by \$64.2 million, or 28.1%, including:
 - ⇒ \$63.9 million for construction of 6 new schools or expansions in Chandler, Vail, and Queen Creek.
 - ⇒ \$17.2 million for one-time building renewal grants.
 - ⇒ \$(15.0) million for the removal of one-time building renewal grant monies from FY 2017.
 - ⇒ \$(1.9) million for other adjustments.

Universities

- The Universities' General Fund spending increases by \$6.3 million, or (0.9)%, including:
 - ⇒ \$(19.0) million to remove one-time funding for operating or capital expenditures.
 - ⇒ \$15.0 million for new one-time funding for operating or capital expenditures. A total of \$2.0 million is set aside for the "freedom schools."
 - ⇒ \$4.2 million to restore one-time savings associated with refinancing the original 2003 lease-purchase payments for research infrastructure.
 - ⇒ \$941,000 to restore funding for the operations of the Geological Survey at UA.
 - ⇒ \$5.2 million for statewide adjustments.
- The budget appropriates \$27.0 million to the Universities beginning in FY 2019 for capital infrastructure projects. The appropriation continues through FY 2043 and will be inflated annually by the lesser of 2% or the GDP price deflator. The universities must match any portion of the appropriation used for debt-financed projects with their own revenues, and may issue no more than \$1 billion in debt principal.
- Total university enrollment is projected to be 174,400 full-time equivalent students in FY 2018, or 5.8% above FY 2017.

Community Colleges

- Community College General Fund spending increases by \$773,800, or 1.4%, including:
 - ⇒ \$523,800 for equalization formula growth.
 - ⇒ \$250,000 for Gila County Workforce Development.
- FY 2016 rural district enrollment decreased by (830) full-time equivalent students, or (2.8)%, for a total enrollment of 29,224. Including the Maricopa and Pima districts, total enrollment decreased by (6,168), or (5.0)%, for total enrollment of 116,494.

Health and Welfare

AHCCCS

- AHCCCS' General Fund spending increases by \$24.3 million, or 1.4%, including:
 - ⇒ \$68.7 million for formula adjustments, including 1.6% enrollment growth and a 3.0% capitation rate increase.
 - ⇒ \$(30.0) million in savings for higher-than-expected drug rebates.
 - ⇒ \$9.7 million for long term care provider rate increases for the Elderly and Physically Disabled program associated with minimum wage and sick leave provisions of Proposition 206.
 - ⇒ \$(24.1) million in savings for a 1-year moratorium on the federal health insurer fee.
- AHCCCS enrollment is projected to grow to 1.89 million by June 2018. This level represents a caseload increase of 28,900, or 1.6%, above June 2017. Total June 2018 enrollment includes 33,850 children in the restored KidsCare program.

Department of Child Safety

- DCS' General Fund spending increases by \$611,400, or 0.2%, including:

- ⇒ \$2.0 million for caseload growth in the Adoption program.
- ⇒ \$1.0 million to expand eligibility for the Grandparent Stipend program to other relatives and caregivers.
- ⇒ \$(2.7) million to remove backlog privatization funding.
- ⇒ \$311,400 for statewide adjustments.
- DCS' benchmark is to have fewer than 15,091 children in out-of-home care by the end of FY 2018. As of March 2017, there were 16,931 children in out-of-home care.

Department of Economic Security

- DES' General Fund spending increases by \$47.8 million, or 8.9%, including:
 - ⇒ \$18.6 million for Division of Developmental Disabilities (DDD) formula adjustments, including 4.5% enrollment growth and a 2.5% capitation rate increase.
 - ⇒ \$22.5 million for ongoing DDD provider rate adjustments associated with the minimum wage and paid sick leave requirements of Proposition 206.
 - ⇒ \$12.0 million in one-time additional assistance to DDD providers for Proposition 206 costs and state-only room and board expenses.
 - ⇒ \$2.0 million for the Arizona Early Intervention Program.
 - ⇒ \$807,800 for the Area Agencies and Aging for in-home service provider rate adjustments associated with Proposition 206.
 - ⇒ \$(8.1) million to remove one-time supplemental funding from FY 2017.
- In total across DES and AHCCCS, the budget includes \$45.0 million from the General Fund and \$165.0 million in Total Funds for long-term care providers affected by Proposition 206 minimum wage and sick leave requirements.
- Medicaid Developmental Disability caseloads are projected to grow to 32,277 by June 2018. This level represents a caseload increase of 1,390, or 4.5%, above June 2017. In addition, another 7,693 clients are projected to receive non-Medicaid services in FY 2018.
- TANF Cash Benefits caseloads are projected to be flat in FY 2018, resulting in estimated enrollment of 17,763 by June 2018.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending increases by \$20.9 million, or 2.0%, including:
 - ⇒ \$12.2 million for statewide adjustments.
 - ⇒ \$8.4 million for higher employer retirement expenses.
 - ⇒ \$1.5 million for an increase to the inmate health care contracted services line.
 - ⇒ \$1.0 million for the annualization of 1,000 medium custody private beds that opened in FY 2017.
 - ⇒ \$517,900 for recidivism reduction initiatives.
 - ⇒ \$(2.5) million for Medicaid savings.
 - ⇒ \$(115,100) for other adjustments.
- The systemwide prison population is projected to be 43,262 in June 2018. As of June 6, 2017, the inmate population was 42,155.
- In June 2018, ADC would have a permanent bed shortfall of (4,129) at 43,262 budgeted population level. Taking into account 5,996 temporary beds, the shortfall becomes a surplus of 1,867 beds.

Department of Juvenile Corrections

- DJC General Fund spending decreases by \$(4.6) million, or (19.2)%, including:
 - ⇒ \$(5.0) million in savings for a (52.4)% decline in the DJC population compared to FY 2014.
 - ⇒ \$349,700 for statewide adjustments.

Judiciary

- Judiciary General Fund spending decreases by \$(2.3) million, or (2.0)%, including:
 - ⇒ \$618,400 for the second year of a 3% pay increase for Supreme, Appeals, and Superior Court judges and for the annualization of additional funding for 2 new Supreme Court Justices.
 - ⇒ \$(3.0) million for the elimination of one-time funding for dependency case processing.
 - ⇒ \$(948,700) for the elimination of one-time funding for Wide Area Application Services equipment.
 - ⇒ \$736,000 for additional Court of Appeals staff and 9 new Adult Standard Probation officers.
 - ⇒ \$344,200 for other adjustments.

- The budget includes \$2.6 million in FY 2018 Judiciary Fund transfers to the General Fund.

Department of Public Safety

- DPS General Fund spending decreases by \$(11.6) million, or (9.6)%, including:
 - ⇒ \$(14.6) million for the elimination of one-time equipment funding for the Border Strike Task Force.
 - ⇒ \$(500,000) for the elimination of one-time funding for sexual assault kit testing. A total of \$1.2 million is redirected in FY 2018 for new one-time funding for sexual assault kit testing.
 - ⇒ \$3.0 million for an increase in the PSPRS employer contribution rate and for other statewide adjustments.

Local Issues

- The budget continues a \$5.5 million cash payment from the General Fund for county governments. Each county receives \$550,050 except Maricopa and Pima. The budget continues an extra allocation of \$500,000 to Graham County. The Pinal, Yavapai, and Mohave assistance is new one-time FY 2018 funding.
- The budget continues to include \$8.0 million for distribution to counties to partly offset contributions for the cost of the Department of Juvenile Corrections.
- The budget includes an increase of \$17.2 million, or 2.6%, for higher urban revenue sharing payments to city governments. Total funding would be \$680.8 million.
- The budget includes an increase of \$30.0 million from the Highway Expansion and Extension Loan Program (HELP) Fund for local HURF in FY 2018 and FY 2019 to fully offset local HURF "sweep."

General Government

Automation

- The budget includes \$55.7 million for large-scale automation projects. Of this amount, \$12.3 million is financed from the General Fund and \$43.4 million is financed from Other Funds. The \$55.7 million FY 2018 amount includes the following:
 - ⇒ \$12.7 million for technology projects and project management at ADOA.
 - ⇒ \$11.0 million for the Department of Revenue's IT infrastructure replacement project.
 - ⇒ \$11.1 million as the next installment in replacing DCS' Children's Informational Library and Data Source (CHILDS).
 - ⇒ \$7.3 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$4.8 million for DPS' Microwave Backbone and Criminal Justice Information System projects.
 - ⇒ \$3.5 million for the Lottery IT system.
 - ⇒ \$3.2 million for the next installment of the Department of Environmental Quality's automation project.
 - ⇒ \$1.0 million for Industrial Commission claims processing.
 - ⇒ \$0.6 million for a statewide E-Licensing system for 90/10 boards.
 - ⇒ \$0.5 million for an assessment for replacement of the state's human resources IT system.

Revertments

- The budget assumes projected revertments at \$(141) million, compared to \$(140) million in FY 2017. (Revertments are unspent appropriations.)
- The budget assumes an additional \$(10) million in savings from unallocated Executive reductions and efficiency savings.
- FY 2018 administrative adjustments are forecast to be \$100 million, which is unchanged from FY 2017.

Statewide Adjustments

- The budget includes an increase of \$25.0 million from the General Fund (and \$76.4 million in Total Funds) for a one-time increase in employer contributions to the State Employee Health Insurance Trust Fund (HITF).
- Selected state agency budgets are adjusted for changes in Risk Management Premium costs and Arizona Financial Information System (AFIS) charges, but there is no net change statewide from the General Fund.

FY 2017 General Fund Supplementals

- The budget includes a net increase of \$25.5 million for FY 2017 adjustments, including:
 - ⇒ For ADE, a \$17.1 million General Fund supplemental for 1% cap funding shortfalls.
 - ⇒ For DES, \$8.1 million for long term care provider rate increases associated with Proposition 206 minimum wage costs.
 - ⇒ \$224,500 for the Land Department's Central Arizona Project payments.

State Employee Issues

FTE Positions

- The budget increases the Total Funds Full-Time Equivalent (FTE) ceiling by 120.4 FTE Positions in FY 2018, including:
 - ⇒ An increase of 71.4 FTE Positions in DES' Division of Developmental Disabilities (DDD) for additional case managers.
 - ⇒ A decrease of (11.0) FTE Positions from the Border Strike Task Force line item for an adjustment to reflect funded positions.
 - ⇒ An increase 21 FTE Positions within the Department of Forestry and Fire Management for a post-release fire crew and new Deputy Fire Marshal.
 - ⇒ An increase of 10 FTE Positions for additional personnel at the Department of Water Resources.
 - ⇒ An increase of 8 FTE Positions in the Department of Agriculture for a Meat and Poultry Inspector and personnel for the State Veterinarian's Office.
 - ⇒ An increase of 21 FTE Positions for other adjustments.
- These adjustments would bring the total FTE Position ceiling to 52,704.7 in FY 2018.

Capital

- The budget includes \$32.2 million for building renewal and capital projects. Of this amount, \$5.7 million is financed from the General Fund and \$26.5 million is financed from Other Funds. These amounts include the following:
 - ⇒ \$5.7 million from the General Fund for ADOA building renewal projects.
 - ⇒ \$13.4 million from Other Appropriated Funds for building renewal at ADC, DJC, ADOT, ADOA, Game and Fish, and the State Lottery.
 - ⇒ \$13.1 million from Other Appropriated Funds for new projects at ADOT, ADC, the State Fair, and Parks.

FY 2018 FUNDING FORMULA SUSPENSIONS 1/

	FY 2018 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 14,279,700 <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 <u>4/</u>
Department of Education - Large JTEDs at 95.5%	1,897,900 <u>5/</u>
Department of Environmental Quality - Water Quality Assurance Revolving Fund (WQARF)	12,176,400 <u>6/</u>
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>7/</u>
Department of Health Services - Sexually Violent Persons (SVP)	3,027,700 <u>8/</u>
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	89,398,200 <u>9/</u>
Universities - Financial Aid Trust	20,520,400
 Total - FY 2018 Statutory Funding Formula Suspensions	 \$ 513,299,000
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 33,177,700
Department of Corrections - Building Renewal	15,466,500
Universities - Building Renewal	140,600,000
 Total - FY 2018 Non-Statutory Funding Formula Suspensions	 \$ 189,244,200

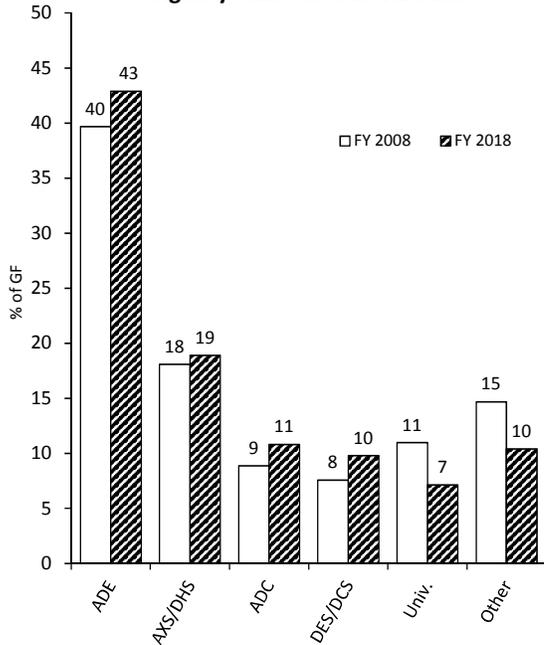
- 1/ Represents the General Fund cost of funding formulas that are currently suspended on an annual basis.
- 2/ Represents partial suspension of Pinal STEM formula amounts and full suspension of the Maricopa and Pima STEM formula amounts. The dollar value of the Maricopa and Pima Community Colleges Operating Aid is unknown since the formula growth is based on multiplying the change in student count by the current year average state aid per student. Both Maricopa and Pima do not receive funding in the current year.
- 3/ Represents 84.2% of the formula requirement that is unfunded. Excludes approximately \$27,000,000 suspended in non-state aid districts, which are not funded through the state budget.
- 4/ Represents 5.7% of the formula requirement that is unfunded.
- 5/ Estimate based on FY 2017 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).
- 6/ Represents the difference between the General Fund requirement of \$15,000,000 and the General Fund appropriation of \$2,823,600. In lieu of additional General Fund, the FY 2018 budget also includes \$2,000,000 from the Air Quality Fund and \$4,000,000 from the Emissions Inspection Fund, \$3,713,300 from the Permit Administration Fund and \$1,000,000 from the Recycling Fund for WQARF. As a result, WQARF is receiving \$13,536,900 in total appropriated funds in FY 2018, compared to the statutory allocation of \$15,000,000.
- 7/ Excludes costs that counties incur to treat RTC patients in alternative (non-Arizona State Hospital) facilities.
- 8/ Reflects estimate of remaining costs to counties for SVP care.
- 9/ This amount is in addition to the \$10,000,000 allocated to DPS from the HURF pursuant to A.R.S. § 28-6537.

"THEN AND NOW" - FY 2008 vs. FY 2018 General Fund Spending

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

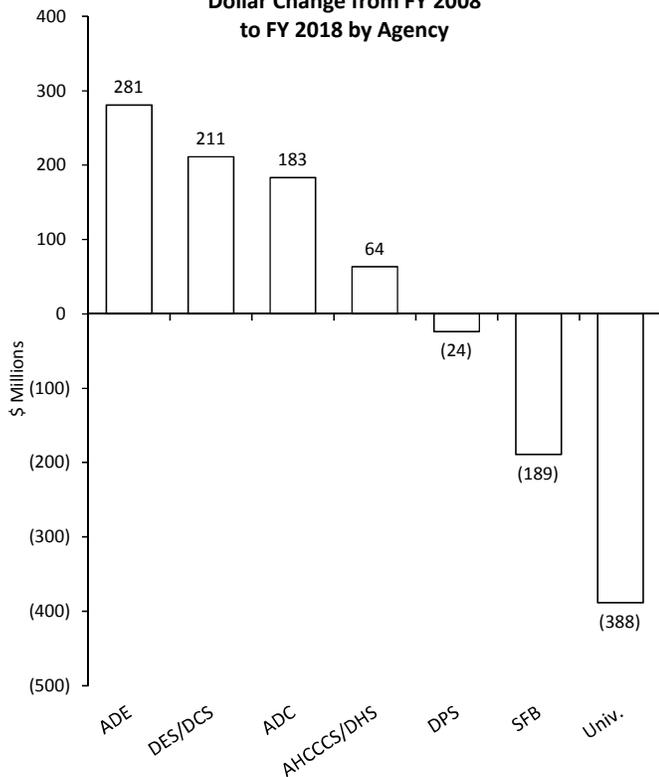
	FY 08 Actuals	FY 18 Approp.	\$ Change FY 08-18	% Change FY 08-18
K-12 Education (ADE)	\$ 3,946.2	\$ 4,227.0	\$ 280.8	7.1
AHCCCS / DHS 2/	1,799.4	1,862.9	63.5	3.5
Corrections	884.3	1,067.6	183.4	20.7
Universities	1,093.1	704.8	(388.3)	(35.5)
Economic Security	754.6	586.1	(168.5)	3/ (22.3)
Child Safety	-	379.8	379.8	3/ NA
School Facilities Board	481.3	292.3	(189.0)	(39.3)
Judiciary	126.6	110.7	(15.9)	(12.6)
Public Safety	133.4	109.6	(23.8)	(17.8)
Other	724.8	514.9	(209.9)	(29.0)
TOTAL	\$ 9,943.7	\$ 9,855.8	\$ (87.9)	-0.9%

Agency Share of General Fund

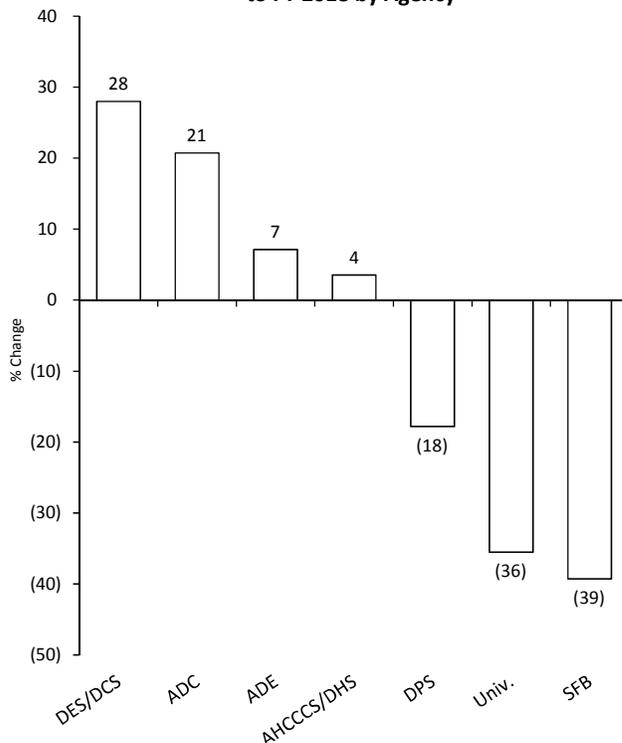


- 1/ Represents individual agency General Fund spending only. Excludes administrative adjustments, revertsments, and any Budget Stabilization Fund deposits.
 2/ AHCCCS and DHS budgets displayed together to provide comparison of total healthcare spending in FY 2008 and FY 2018.
 3/ The decline in the Department of Economic Security represents shift in resources to the new Department of Child Safety.

**Dollar Change from FY 2008
to FY 2018 by Agency**



**Percent Change from FY 2008
to FY 2018 by Agency**



"THEN AND NOW" - FY 2008 vs. FY 2018 General Fund Revenue and Ending Balances

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

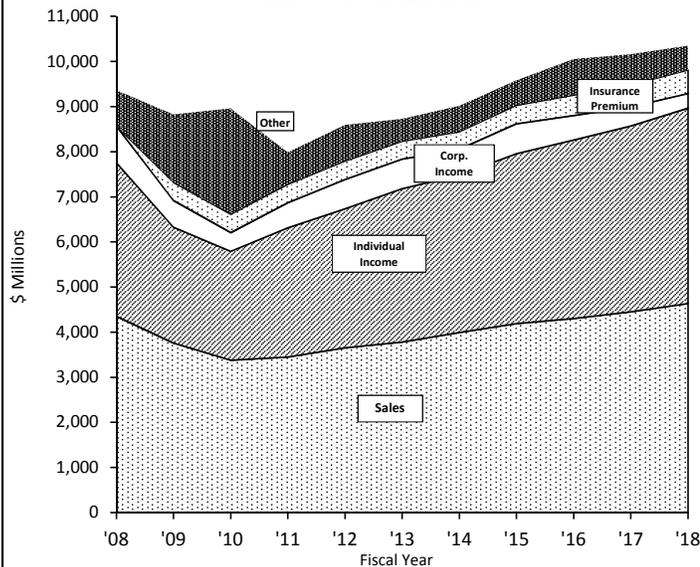
Fiscal Year	Revenue	Expenditures	Ending Balance	Ending Balance as a % of Revenue
2008	9,944.7	9,943.7	1.0	0.0%
2009	8,248.5	8,729.2	(480.7)	-5.8%
2010	7,843.8	7,849.5	(5.7)	-0.1%
2011	8,378.0	8,374.8	3.2	0.0%
2012	9,066.7	8,669.7	397.0	4.4%
2013	9,559.5	8,664.0	895.5	9.4%
2014	9,381.3	8,803.9	577.4	6.2%
2015	9,581.9	9,269.6	312.3	3.3%
2016	9,796.6	9,512.6	284.0	2.9%
2017	9,805.4	9,634.4	171.0	1.7%
2018	9,852.6	9,815.1	37.5	0.4%

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

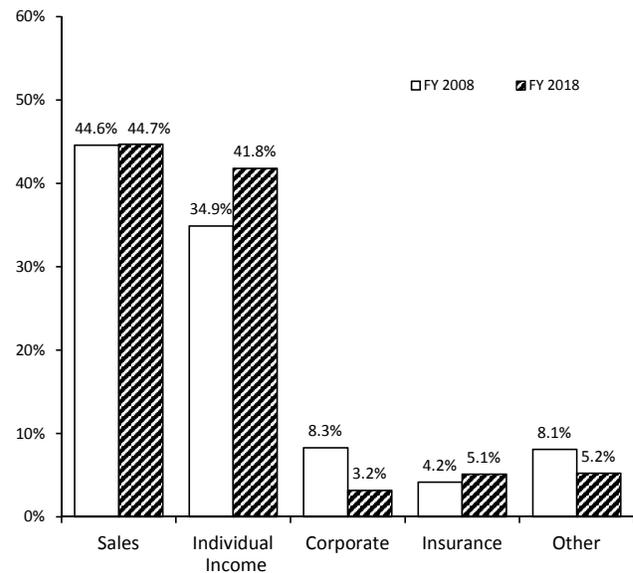
Fiscal Year	Sales	Indiv. Income	Corp. Income	Ins. Premium	Other
2008	44.6%	34.9%	8.3%	4.2%	8.1%
2009	42.6%	29.1%	6.7%	4.7%	17.0%
2010	37.7%	27.0%	4.6%	4.5%	26.1%
2011 <u>4/</u>	43.1%	35.8%	7.0%	5.2%	8.9%
2012 <u>4/</u>	42.6%	36.0%	7.5%	4.6%	9.3%
2013 <u>4/</u>	43.4%	39.0%	7.6%	4.4%	5.6%
2014	44.2%	38.6%	6.4%	4.6%	6.3%
2015	43.6%	39.1%	6.9%	4.7%	5.7%
2016	42.6%	39.2%	5.4%	4.9%	7.9%
2017	43.7%	40.4%	4.1%	5.1%	6.7%
2018	44.7%	41.8%	3.2%	5.1%	5.2%

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

General Fund Major Tax Sources as a Share of Total Revenue



Major Tax Sources as a Percent of Total Revenue



BUDGET DETAIL

SUMMARY OF GENERAL FUND APPROPRIATIONS
By Individual Chapter
For Fiscal Years 2017 - 2019 1/2/3/

Chap. Bill No. Number	Reference Title	FY 2017 General Fund	FY 2018 General Fund	FY 2019 General Fund
Fifty-third Legislature - First Regular Session (2017)				
17 SB 1179	Appropriations; Named Claimants	8,800		
280 HB 2253	State Veterinarian; Animal Identification; Appropriation		368,000	
284 SB 1038	Teachers; Professional Development; Pilot Program		300,000	
285 SB 1184	Appropriation; Arizona Geological Survey		941,000	
304 HB 2545	K-12 Education; Budget Reconciliation; 2017-2018		235,000	
305 SB 1522	General Appropriations Act; 2017-2018*	25,453,500	8,730,402,000	984,897,500 <u>4/</u>
306 SB 1523	Capital Outlay; Appropriations; 2017-2018		5,700,000 C	5,700,000 C
308 SB 1526	Environment; Budget Reconciliation; 2017-2018		(12,176,400) <u>5/</u>	
334 SB 1197	Real Estate Appraisal		675,000	
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION		25,462,300	8,726,444,600	990,597,500
Fifty-second Legislature - Second Regular Session (2016)				
117 HB 2695	General Appropriations Act; 2016-2017	8,216,152,600	953,806,300 <u>6/</u>	
120 HB 2702	Environment; Budget Reconciliation; 2016-2017	(12,176,400) <u>5/</u>		
125 HB 2708	Revenue; Budget Reconciliation; 2016-2017	32,000,000 C		
126 SB 1527	Appropriations; Capital Outlay; 2016-2017	74,500,000 C		
128 SB 1530	Agency Consolidation; Budget Reconciliation; 2016-2017	0 <u>7/</u>		
129 SB 1531	Credit Enhancement; Budget Reconciliation; 2016-2017	500,000		
130 SB 1537	Higher Education; Budget Reconciliation; 2016-2017	(951,900) <u>8/</u>		
138 HB 2620	Education; Certification Renewal Fees	0 <u>9/</u>		
214 HB 2388	Qualified Disability Expenses; Eligible Individuals	240,000		
248 HB 2665	Charter Schools; Preference; Foster Children		1,500,000	
342 SB 1435	Racing Commission; Continuation; Conforming Changes	200,000		
372 HB 2666	Governor's Economic Opportunity Office; Consolidation	0 <u>10/</u>		
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		8,310,464,300	955,306,300	0
Fifty-second Legislature - First Special Session (2015)				
1 HB 2001	Schools; Base Level; Appropriations* <u>11/</u>	50,000,000	50,000,000	50,000,000
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION		50,000,000	50,000,000	50,000,000
Fifty-second Legislature - First Regular Session (2015)				
8 SB 1469	2015-2016; General Appropriations	1,162,727,700 <u>12/</u>		
132 SB 1001	Nuclear Emergency Appropriations; Assessments	2,412,500		
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION		1,165,140,200	0	0
Fifty-first Legislature - Second Regular Session (2014)				
18 HB 2703	2014-2015; General Appropriations <u>13/</u>	4,242,400	4,000,000	4,000,000
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		4,242,400	4,000,000	4,000,000
Permanent General Fund Appropriations and Allocations <u>14/</u> *				
9-602	Phoenix Convention Center Financing	20,449,000	22,499,000	22,996,300
15-1469.01	Community College Rural County Allocation	2,730,600	2,596,700	2,596,700
15-1670	University Research Infrastructure Financing <u>15/</u>	34,625,000	33,626,800	33,625,900
15-1671	University Infrastructure Capital Financing <u>16/</u>			27,000,000
26-263	Military Airport Planning; Appropriation <u>17/</u>	175,000	175,000	175,000
35-192	General Emergency Authority <u>18/</u>	4,000,000	4,000,000	4,000,000
37-623	Wild Land Fire Emergency <u>18/</u>	3,000,000	3,000,000	3,000,000
38-810	Elected Officials' Retirement Plan Closure <u>19/</u>	5,000,000	5,000,000	5,000,000
41-2308	Special Sporting Event Marketing <u>20/</u>			
42-5031	Rio Nuevo Multipurpose Facility District <u>21/</u>	10,000,000	10,000,000	10,000,000
42-5031.01	Indian Tribal Postsecondary Educational Institutions	2,625,000	2,625,000	2,625,000
43-409	Arizona Commerce Authority/Income Tax Withholding	21,500,000	21,500,000	21,500,000
49-282	WQARF Priority Site Remediation <u>22/</u>	15,000,000	15,000,000	15,000,000
SUBTOTAL APPROPRIATIONS - PERMANENT		119,104,600	120,022,500	147,518,900
TOTAL APPROPRIATIONS		\$9,674,413,800	\$9,855,773,400	\$1,192,116,400

* Appropriation beyond FY 2019.
C Designates a capital appropriation. All other appropriations are operating appropriations. For Laws 2016, Chapter 125, \$30,000,000 of the \$32,000,000 amount displayed is a capital appropriation.
1/ For FY 2017 - FY 2019, this table summarizes all General Fund appropriations enacted in any session. Equals total spending less administrative adjustments and revertsments.
2/ All appropriations have been rounded to the nearest \$100.
3/ Excludes administrative adjustments, revertsments, and statutory revertsments.
4/ Laws 2017, Chapter 305 appropriates \$953,806,300 in FY 2018 as follows: 1) \$930,727,700 for the payment of the FY 2017 K-12 payment deferral into FY 2018; 2) \$37,989,800 for SFB New Construction funding; 3) \$2,000,000 to DWR for a drought contingency plans; 4) \$12,000,000 to ADE for early literacy; 5) \$1,500,000 to the Attorney General for operating expenditures of the criminal division; and 5) \$680,000 and 6 FTE Positions to the Auditor General for operating expenditures.
5/ Represents reductions in General Fund appropriations below the amount required by A.R.S. § 49-282.
6/ Laws 2016, Chapter 117 appropriates \$953,806,300 in FY 2018 as follows: 1) \$930,727,700 for the payment of the FY 2017 K-12 payment deferral into FY 2018; and 2) \$23,078,600 for SFB New Construction funding.

- 7/ Laws 2016, Chapter 128 transfers \$428,300 of funding from the Arizona Historical Society to the Geological Survey (at University of Arizona) in FY 2017 for use in operating the Mining, Mineral and Natural Resources museum. There is no net change in overall General Fund Appropriations.
- 8/ Laws 2016, Chapter 130 reduces the FY 2017 University Research Infrastructure Financing debt service appropriation to ASU by \$(951,900) to reflect a subsequent refinancing that occurred in 2015. (See Footnote 15)
- 9/ Laws 2016, Chapter 138 transfers \$231,200 of General Fund monies from the State Board of Education to the Department of Education. There is no net change in overall General Fund Appropriations.
- 10/ Laws 2016, Chapter 372 transfers \$568,700 of General Fund monies from the Arizona Department of Administration to the newly-created Office of Economic Opportunity. In addition, \$500,000 of General Fund monies are transferred from the Water Infrastructure Finance Authority to the Office of Economic Opportunity. There is no net change in overall General Fund Appropriations.
- 11/ Laws 2015, 1st Special Session, Chapter 1 appropriates \$50,000,000 annually during FY 2016 - FY 2020, and \$75,000,000 annually during FY 2021 - FY 2025 for additional funding for school districts and charter schools.
- 12/ Laws 2015, Chapter 8 appropriates \$1,162,727,700 in FY 2017 for the payment of FY 2016 payment deferrals into FY 2017 as follows: Department of Child Safety (DCS) - \$11,000,000; Department of Economic Security (DES) - \$21,000,000; Arizona Department of Education (ADE) - \$930,727,700; Universities - \$200,000,000.
- 13/ FY 2017 - FY 2019 Amounts - 1) Laws 2014, Chapter 18 contains the following: 1) Section 134 makes a \$(4,257,600) reduction to the University Research Infrastructure Financing allocation in FY 2017; 2) Section 133 appropriates \$1,000,000 annually from the General Fund through FY 2019 for deposit into the employer account of the Prescott Fire Department to offset increased pension liability; 3) The bill appropriates \$4,500,000 to the Universities for operating expenditures in FY 2017; and 5) Section 132 appropriates \$3,000,000 annually from the General Fund through FY 2019 to NAU for biotechnology medical research.
- 14/ Permanent law authorizes these appropriations and allocations.
- 15/ Starting in FY 2008 and continuing through FY 2031, A.R.S. § 15-1670 annually appropriates the collective total of \$34,625,000 to Arizona State University, Northern Arizona University, and the University of Arizona for debt service on research infrastructure projects. Laws 2014, Chapter 18 and Laws 2016, Chapter 130 reduced the FY 2017 appropriation and modified the future Research Infrastructure Financing debt service schedule during FY 2018 to FY 2031 to reflect all refinancing activity so far.
- 16/ Starting in FY 2019 and continuing through FY 2043, A.R.S. § 15-1671 annually appropriates monies to Arizona State University, Northern Arizona University and the University of Arizona for infrastructure capital financing. The initial appropriation of \$27,000,000 in FY 2019 is adjusted annually by 2%, or the rate of inflation, whichever is less.
- 17/ \$90,000 to DEMA and \$85,000 to the Attorney General.
- 18/ In an emergency, the Governor can order the withdrawal of these monies from the General Fund without specific appropriation authority.
- 19/ Laws 2013, Chapter 217 appropriates \$5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost plus an amount to amortize the unfunded accrued liability of the Elected Officials Retirement Plan.
- 20/ Pursuant to A.R.S. § 41-2308, an amount of \$1,500,000 is appropriated annually from FY 2022 - FY 2051 to the Office of Tourism to promote and market a special sporting event, contingent upon: 1) The official special sporting event project cost incurred from and after December 31, 2016 is at least \$100,000,000; and 2) The host facility reports to JLBC and OSPB that it has incurred the required special sporting event project cost on or before December 31, 2020 and the JLBC certifies the expenditures reported by the host facility.
- 21/ Represents an estimated distribution based on monies allocated under A.R.S. § 42-5031.
- 22/ A.R.S. § 49-282 directs \$18,000,000 annually to the Water Quality Assurance Revolving Fund (WQARF). The statute instructs the State Treasurer to transfer \$15,000,000 from corporate income tax receipts into WQARF at the start of each fiscal year. The statute also instructs the State Treasurer to adjust the corporate income tax deposit at the end of each fiscal year to supplement other deposits, so that WQARF receives \$18,000,000 total from all sources. Laws 2016, Chapter 120 reduces the FY 2017 allocation to \$2,823,600 and Laws 2017, Chapter 308 reduces the FY 2018 allocation to \$2,823,600 but utilizes balances of other DEQ funds.

SUMMARY OF OTHER FUND APPROPRIATIONS By Individual Chapter For Fiscal Years 2017 and 2018 1/2/3/

Chap. Bill No. Number Reference Title	FY 2017 Other Fund	FY 2018 Other Fund
<u>Fifty-third Legislature - First Regular Session (2017)</u>		
17 SB 1179 Appropriations; Named Claimants	10,700	
43 SB 1091 Nuclear Emergency Appropriations; Assessments*		2,503,100
286 SB 1278 Felony Pretrial Intervention Programs; Appropriation		2,750,000
303 HB 2540 Criminal Justice; Budget Reconciliation; 2017-2018		750,000
305 SB 1522 General Appropriations Act; 2017-2018	63,669,000	3,937,063,400
306 SB 1523 Capital Outlay; Appropriations; 2017-2018	1,500,000	366,380,100 C
308 SB 1526 Environment; Budget Reconciliation; 2017-2018		10,713,300
312 SB 1531 Revenues; Budget Reconciliation; 2017-2018		30,000,000 C
334 SB 1197 Real Estate Appraisal		(815,100)
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION	65,179,700	4,349,344,800
<u>Fifty-second Legislature - Second Regular Session (2016)</u>		
117 HB 2695 General Appropriations Act; 2016-2017	3,707,939,600 <u>4/</u>	
120 HB 2702 Environment; Budget Reconciliation; 2016-2017	7,125,000	
124 HB 2707 K-12 education; Budget Reconciliation; 2016-2017	500,000	
126 SB 1527 Appropriations; Capital Outlay; 2016-2017	333,217,500 C	
137 HB 2502 Medical Licensure Compact	50,000	
138 HB 2620 Education; Certification Renewal Fees	0 <u>5/</u>	

153	SB 1246	Corrections Department; Revolving Fund Uses	596,000	
207	HB 2640	Appropriation; Pediatric Neurological Autoimmune Disorders	250,000	
221	SB 1270	Pest Management Division	(1,695,500)	6/
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			4,047,982,600	0

Fifty-first Legislature - Second Regular Session (2014)

18	HB 2703	2014-2015; General Appropriations*	2,000,000	7/	2,000,000	7/
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			2,000,000		2,000,000	

TOTAL APPROPRIATIONS			<u>\$4,115,162,300</u>		<u>\$4,351,344,800</u>	
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- * Appropriation beyond FY 2018.
- C Designates a capital appropriation. All other appropriations are operating appropriations.
- 1/ For FY 2017 and FY 2018, this table summarizes all Other Fund appropriations enacted in any session.
- 2/ All appropriations have been rounded to the nearest \$100.
- 3/ Excludes administrative adjustments, revertsments, and statutory revertsments.
- 4/ Includes an increase of \$98,447,900 for FY 2017 adjustments for the following items: University Tuition, Lottery Revenues, and ADOA Attorney General ISA Fund.
- 5/ Laws 2016, Chapter 138 transfers \$379,800 of Other Fund monies from the State Board of Education to the Department of Education. There is no net change in overall Other Fund Appropriations.
- 6/ The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$1,695,500 from the Pest Management Fund in FY 2017 for the Office of Pest Management. Laws 2016, Chapter 221 subsequently transferred the Office of Pest Management to the Department of Agriculture (ADA) creating the Division of Pest Management within ADA as of July 1, 2016. Chapter 221 converted the Pest Management Fund into the Pest Management Trust Fund, establishing the Trust Fund as a non-appropriated fund. This resulted in a reduction of \$(1,695,500) in Other Appropriated funds below the amount appropriated in the FY 2017 General Appropriation Act.
- 7/ Laws 2014, Chapter 18, Section 132 appropriates \$2,000,000 annually from the Health Research Fund through FY 2019 to DHS for biomedical genomic research.

SUMMARY OF FISCAL-RELATED VETOES
Fifty-Third Legislature - First Regular Session

<u>Bill No.</u>	<u>Reference Title</u>	<u>Description of Vetoed Bill</u>
SB 1337	industrial hemp; licensing	Would have authorized the production, processing, manufacturing, distribution of industrial hemp by licensed growers and processors. Would have required the Department of Agriculture to establish a license and regulation process.
HB 2169	state retirement; waiting period; repeal	Would have repealed statute prohibiting a state employee from becoming a member of any state retirement system before the 27th week of employment, thereby requiring the state to pay the employer share of retirement contributions for eligible employees immediately.

SUMMARY OF APPROPRIATED FUNDS BY AGENCY
Fiscal Years 2017 and 2018 1/

	Fiscal Year 2017			Fiscal Year 2018		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
BUDGET UNITS						
Accountancy, State Board of	\$0	\$1,937,000	\$1,937,000	\$0	\$2,042,200	\$2,042,200
Acupuncture Examiners, Board of	0	178,500	178,500	0	185,500	185,500
Administration, Arizona Department of	10,264,500	191,446,500	201,711,000	10,365,300	187,518,000	197,883,300
- Automation Projects Fund	14,881,600	44,774,700	59,656,300	12,300,000	55,761,900	68,061,900
Administrative Hearings, Office of	860,500	0	860,500	870,900	0	870,900
African-American Affairs, Arizona Commission of	125,000	0	125,000	125,800	0	125,800
Agriculture, Arizona Department of	9,162,700	1,434,400	10,597,100	9,563,700	1,716,500	11,280,200
AHCCCS	1,750,941,400	278,238,500	2,029,179,900	1,775,264,100	361,527,400	2,136,791,500
Arts, Arizona Commission on the	0	1,500,000	1,500,000	0	1,500,000	1,500,000
Athletic Training, Board of	0	119,100	119,100	0	120,600	120,600
Attorney General - Department of Law	24,664,800	45,119,700	69,784,500	26,344,200	46,213,900	72,558,100
Automobile Theft Authority	0	5,295,500	5,295,500	0	5,301,400	5,301,400
Barbers, Board of	0	370,700	370,700	0	345,800	345,800
Behavioral Health Examiners, Board of	0	1,759,100	1,759,100	0	1,777,800	1,777,800
Charter Schools, State Board for	1,185,200	0	1,185,200	1,200,600	0	1,200,600
Child Safety, Department of	379,179,400	178,139,100	557,318,500	379,790,800	180,610,300	560,401,100
Chiropractic Examiners, State Board of	0	451,100	451,100	0	455,100	455,100
Commerce Authority, Arizona	21,800,000	0	21,800,000	21,800,000	0	21,800,000
Community Colleges, Arizona	54,312,700	0	54,312,700	55,086,500	0	55,086,500
Contractors, Registrar of	0	12,165,400	12,165,400	0	12,268,400	12,268,400
Corporation Commission	2,611,600	26,325,600	28,937,200	621,500	26,652,400	27,273,900
Corrections, State Department of	1,046,689,500	50,470,000	1,097,159,500	1,067,624,800	51,553,200	1,119,178,000
Cosmetology, Board of	0	1,805,200	1,805,200	0	1,864,500	1,864,500
County Funding	14,000,500	0	14,000,500	15,650,700	0	15,650,700
Criminal Justice Commission, Arizona	0	6,445,400	6,445,400	0	9,202,600	9,202,600
Deaf and the Blind, Schools for the	21,378,100	11,677,700	33,055,800	21,932,000	11,878,700	33,810,700
Deaf and the Hard of Hearing, Commission for the	0	4,309,500	4,309,500	0	4,622,600	4,622,600
Dental Examiners, State Board of	0	1,214,500	1,214,500	0	1,229,900	1,229,900
Economic Opportunity, Office of	1,068,700	0	1,068,700	484,100	0	484,100
Economic Security, Department of	538,272,200	293,945,000	832,217,200	586,110,300	294,107,700	880,218,000
Education, State Board of	1,094,000	0	1,094,000	1,153,600	0	1,153,600
Education, Department of	4,086,457,000	233,394,800	4,319,851,800	4,226,958,400	254,458,700	4,481,417,100
Emergency and Military Affairs, Department of	12,619,500	0	12,619,500	11,238,300	1,438,400	12,676,700
Environmental Quality, Department of	2,823,600	76,334,900	79,158,500	2,823,600	80,222,400	83,046,000
Equal Opportunity, Governor's Office of	189,100	0	189,100	191,900	0	191,900
Equalization, State Board of	643,000	0	643,000	646,400	0	646,400
Executive Clemency, Board of	952,600	0	952,600	963,500	0	963,500
Exposition and State Fair Board, Arizona	0	11,613,300	11,613,300	0	12,153,300	12,153,300
Financial Institutions, Department of	2,978,200	2,268,100	5,246,300	2,201,000	3,226,800	5,427,800
Forestry and Fire Management, Arizona Department of	10,442,800	0	10,442,800	11,922,500	0	11,922,500
Funeral Directors and Embalmers, Board of	0	373,300	373,300	0	378,200	378,200
Game and Fish Department, Arizona	0	42,238,600	42,238,600	0	44,309,200	44,309,200
Gaming, Department of	1,979,500	16,318,700	18,298,200	1,779,500	15,624,200	17,403,700
Governor, Office of the	6,849,900	0	6,849,900	8,871,400	0	8,871,400

	Fiscal Year 2017			Fiscal Year 2018		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	1,994,000	2,014,600	0	2,014,600
Health Services, Department of	86,553,600	52,868,300	139,421,900	87,669,400	52,606,500	140,275,900
Historical Society, Arizona	2,722,900	0	2,722,900	3,179,800	0	3,179,800
Historical Society, Prescott	824,500	0	824,500	840,200	0	840,200
Homeopathic and Integrated Medicine Examiners, Board of	0	103,000	103,000	0	89,000	89,000
Housing, Arizona Department of	811,400	318,500	1,129,900	830,000	323,200	1,153,200
Independent Redistricting Commission	1,115,300	0	1,115,300	0	0	0
Industrial Commission of Arizona	0	19,881,300	19,881,300	0	20,110,400	20,110,400
Insurance, Department of	5,824,300	0	5,824,300	5,878,300	0	5,878,300
Judiciary						
Supreme Court	19,219,500	29,208,800	48,428,300	18,812,000	30,313,800	49,125,800
Court of Appeals	14,280,400	0	14,280,400	14,723,000	0	14,723,000
Superior Court	79,517,800	11,953,300	91,471,100	77,183,700	12,203,300	89,387,000
SUBTOTAL - Judiciary	113,017,700	41,162,100	154,179,800	110,718,700	42,517,100	153,235,800
Juvenile Corrections, Department of	24,180,400	15,379,800	39,560,200	19,549,800	16,655,100	36,204,900
Land Department, State	12,715,900	5,022,100	17,738,000	12,365,900	7,250,000	19,615,900
Legislature						
Auditor General	18,066,500	0	18,066,500	18,688,800	200,000	18,888,800
House of Representatives	13,201,500	0	13,201,500	13,419,100	0	13,419,100
Joint Legislative Budget Committee	2,488,300	0	2,488,300	2,513,800	0	2,513,800
Legislative Council	8,215,400	250,000	8,465,400	8,278,400	0	8,278,400
Senate	9,408,500	0	9,408,500	9,548,100	0	9,548,100
SUBTOTAL - Legislature	51,380,200	250,000	51,630,200	52,448,200	200,000	52,648,200
Liquor Licenses and Control, Department of	0	3,007,400	3,007,400	0	3,047,500	3,047,500
Lottery Commission, Arizona State	0	113,225,100	113,225,100	0	114,420,900	114,420,900
Massage Therapy, Board of	0	470,100	470,100	0	466,100	466,100
Medical Board, Arizona	0	6,463,600	6,463,600	0	6,841,900	6,841,900
Mine Inspector, State	1,212,500	112,900	1,325,400	1,226,800	112,900	1,339,700
Naturopathic Physicians Medical Board	0	184,200	184,200	0	183,000	183,000
Navigable Stream Adjudication Commission	124,000	200,000	324,000	125,500	200,000	325,500
Nursing, State Board of	0	4,784,800	4,784,800	0	4,860,500	4,860,500
Nursing Care Institution Administrators Board <u>2/</u>	0	445,400	445,400	0	426,500	426,500
Occupational Therapy Examiners, Board of	0	170,700	170,700	0	183,700	183,700
Opticians, State Board of Dispensing	0	140,000	140,000	0	141,700	141,700
Optometry, State Board of	0	210,100	210,100	0	222,200	222,200
Osteopathic Examiners, Arizona Board of <u>3/</u>	0	940,500	940,500	0	913,100	913,100
Parents Commission on Drug Educ. & Prev., Arizona	0	300,000	300,000	0	0	0
Parks Board, Arizona State	0	15,986,900	15,986,900	0	14,401,500	14,401,500
Personnel Board, State	0	375,300	375,300	0	378,100	378,100
Pharmacy, Arizona State Board of	0	2,135,200	2,135,200	0	2,285,100	2,285,100
Physical Therapy, Board of	0	484,200	484,200	0	448,000	448,000
Pioneers' Home, Arizona	0	6,174,600	6,174,600	0	6,605,600	6,605,600
Podiatry Examiners, State Board of	0	148,400	148,400	0	149,700	149,700
Postsecondary Education, Commission for	1,396,800	1,534,100	2,930,900	1,881,800	1,541,100	3,422,900
Private Postsecondary Education, Board for	0	396,100	396,100	0	421,000	421,000
Psychologist Examiners, State Board of	0	475,400	475,400	0	480,600	480,600
Public Safety, Department of	121,195,700	171,389,100	292,584,800	109,614,200	174,648,700	284,262,900
Public Safety Personnel Retirement System	6,000,000	0	6,000,000	6,000,000	0	6,000,000
Radiation Regulatory Agency	1,563,100	848,100	2,411,200	787,600	1,646,400	2,434,000
Real Estate Department, State	2,994,900	0	2,994,900	3,028,000	0	3,028,000
Residential Utility Consumer Office	0	1,331,400	1,331,400	0	1,344,300	1,344,300

	Fiscal Year 2017			Fiscal Year 2018		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Respiratory Care Examiners, Board of Retirement System, Arizona State	0	300,300	300,300	0	323,300	323,300
Revenue, Department of	0	27,484,200	27,484,200	0	25,167,700	25,167,700
School Facilities Board	31,998,300	46,234,900	78,233,200	31,291,300	46,442,400	77,733,700
Secretary of State	228,094,400	0	228,094,400	292,286,600	0	292,286,600
Tax Appeals, State Board of	14,969,200	3,681,500	18,650,700	12,190,100	3,695,500	15,885,600
Technical Registration, State Board of	266,600	0	266,600	268,300	0	268,300
Tourism, Office of	0	2,916,400	2,916,400	0	2,233,700	2,233,700
Transportation, Department of	7,112,000	0	7,112,000	7,112,000	0	7,112,000
Treasurer, State	50,400	373,815,900	373,866,300	50,500	390,625,600	390,676,100
Tribal Relations, Governor's Office on Universities	1,205,100	5,018,100	6,223,200	1,205,100	5,379,400	6,584,500
Board of Regents	57,500	0	57,500	58,000	0	58,000
Arizona State University - Tempe/DPC	21,928,400	0	21,928,400	6,909,300	0	6,909,300
Arizona State University - East Campus	253,651,900	593,126,200	846,778,100	267,987,600	598,306,200	866,293,800
Arizona State University - West Campus	22,523,100	44,303,300	66,826,400	22,757,200	44,436,200	67,193,400
Northern Arizona University	29,222,600	45,790,500	75,013,100	29,514,200	45,945,500	75,459,700
University of Arizona - Main Campus	105,227,000	147,283,300	252,510,300	108,612,800	147,362,100	255,974,900
University of Arizona - Health Sciences Center	197,059,600	405,141,100	602,200,700	199,600,900	408,320,500	607,921,400
SUBTOTAL - Universities	68,859,800	47,491,400	116,351,200	69,437,700	47,899,600	117,337,300
Veterans' Services, Department of	698,472,400	1,283,135,800	1,981,608,200	704,819,700	1,292,270,100	1,997,089,800
Veterinary Medical Examining Board	6,054,100	32,046,800	38,100,900	6,115,800	35,492,700	41,608,500
Water Resources, Department of	0	651,900	651,900	0	590,000	590,000
OPERATING BUDGET SUBTOTAL	13,012,600	2,119,100	15,131,700	16,001,900	2,119,600	18,121,500
	\$9,455,347,400	\$3,785,987,500	\$13,241,334,900	\$9,743,443,500	\$3,950,729,000	\$13,694,172,500
Unallocated Adjustments	0	(4,619,500)	(4,619,500)	15,800	4,235,700	4,251,500
Agency Relocation <u>4/</u>	0	576,800	576,800	0	0	0
State Highway Transportation Funding	56,500,000	0	56,500,000	0	0	0
Local HURF Transportation Funding	30,000,000	0	30,000,000	0	30,000,000	30,000,000
Capital Outlay Projects	18,000,000	333,217,500	351,217,500	5,700,000	366,380,100	372,080,100
Capital Outlay - Debt Service	84,117,400	0	84,117,400	84,115,100	0	84,115,100
Civic Center Debt Service	20,449,000	0	20,449,000	22,499,000	0	22,499,000
Rio Nuevo Distribution	10,000,000	0	10,000,000	10,000,000	0	10,000,000
Executive Reductions/Efficiency Savings	0	0	0	(10,000,000)	0	(10,000,000)
Administrative Adjustments	100,000,000	0	100,000,000	100,000,000	0	100,000,000
Revertments	(140,000,000)	0	(140,000,000)	(140,682,500)	0	(140,682,500)
GRAND TOTAL	\$9,634,413,800	\$4,115,162,300	\$13,749,576,100	\$9,815,090,900	\$4,351,344,800	\$14,166,435,700

1/ This table summarizes FY 2017 and FY 2018 appropriations from the 1st Regular Session of the 53rd Legislature and all prior sessions.

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

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

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

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

	FY 2017 4/		FY 2018 5/	
	General Fund	Other Funds	General Fund	Other Funds
ARIZONA DEPARTMENT OF ADMINISTRATION BUILDING SYSTEM				
Administration, Arizona Department of				
Building Renewal for ADOA System (excluding Corrections) 6/7/8/9/10/11/12/	\$8,000,000	\$19,000,000	\$5,700,000	\$2,600,000
Corrections, State Department of				
Building Renewal for Corrections Facilities 13/14/		\$5,464,300		\$5,464,300
Locking System Replacements at State Prison Facilities 15/				1,450,000
Subtotal - State Department of Corrections	\$0	\$5,464,300	\$0	\$6,914,300
Exposition and State Fair Board, AZ				
Capital Improvement Projects 16/		\$1,000,000		\$1,000,000
Game and Fish Department, Arizona 17/				
Building Renewal		\$530,000		\$530,000
Radio Towers 18/		306,000		
Boat Structures 18/		874,900		
Capital Improvements 18/		3,867,000		
Subtotal - Arizona Game and Fish Department	\$0	\$5,577,900	\$0	\$530,000
Juvenile Corrections, Department of				
Building Renewal 19/		\$1,100,000		
Lottery Commission, Arizona State				
Building Renewal 20/		\$118,100		\$122,200
Parks Board, Arizona State				
Capital Improvement Projects 21/		\$1,500,000		\$1,300,000
Major Maintenance and Repairs 22/		0		
Rockin' River Ranch State Park Project 23/				4,000,000
Subtotal - Arizona State Parks Board	\$0	\$1,500,000	\$0	\$5,300,000
Veterans' Services, Department of				
Flagstaff Veterans' Home Construction 24/	\$10,000,000			
SUBTOTAL - ADOA BUILDING SYSTEM	\$18,000,000	\$33,760,300	\$5,700,000	\$16,466,500
ARIZONA DEPARTMENT OF TRANSPORTATION BUILDING SYSTEM				
Arizona Department of Transportation				
Building Renewal 25/		\$4,232,300		\$4,732,300
Airport Planning and Development 26/27/28/		19,079,900		24,555,300
Highway Construction 26/27/29/30/		270,615,000		315,286,000
Interstate 10 Projects 26/31/	\$30,000,000			
State Route 189 26/32/	25,000,000			
Route H60 26/33/	1,500,000			
De-Icer Storage 34/				1,100,000
Vehicle Wash Systems 35/36/37/		5,530,000 38/		
New Equipment Service Shop in Safford 39/				4,000,000
Capital Improvements to Tempe Impound Storage Yard 40/				240,000
Local HURF Transportation Funding 41/				30,000,000
One-time HURF Distribution 42/	30,000,000			
SUBTOTAL - ADOT BUILDING SYSTEM 43/44/45/46/	\$86,500,000	\$299,457,200	\$0	\$379,913,600
GRAND TOTAL - ALL APPROPRIATIONS	\$104,500,000	\$333,217,500	\$5,700,000	\$396,380,100
SUMMARY OF CAPITAL APPROPRIATIONS BY SESSION				
Laws 2016, 2nd Regular Session 4/24/26/	\$104,500,000	\$333,217,500		
Laws 2017, 1st Regular Session 5/22/27/			\$5,700,000	\$396,380,100

- 1/ This table summarizes all capital appropriations for FY 2017 and FY 2018. Appropriations are listed by the state's "building systems." Capital Outlays are budgeted on an annual basis except under special circumstances.
- 2/ FY 2017 amounts represent appropriations from the FY 2017 Capital Outlay Appropriation Act (Laws 2016, Chapter 126), except for the \$30,000,000 appropriation for a one-time HURF distribution which is from the FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125). FY 2018 amounts represent appropriations from the FY 2018 Capital Outlay Appropriation Act (Laws 2017, Chapter 306), except for the \$30,000,000 appropriation for a one-time HURF distribution which is from the FY 2018 Revenues BRB (Laws 2017, Chapter 312).
- 3/ A.R.S. § 41-1252 requires review of any capital projects over \$250,000 by the Joint Committee on Capital Review (JCCR).
- 4/ Notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 that are unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote). FY 2017 Arizona Department of Transportation (ADOT) airport and highway construction appropriations and the FY 2017 Department of Veterans' Services appropriation are exempt from this provision.
- 5/ Notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 and FY 2018 that are unexpended on June 30, 2019 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote). FY 2018 Arizona Department of Transportation (ADOT) airport and highway construction appropriations and the FY 2017 Arizona Department of Transportation 6 vehicle wash systems are exempt from this provision.
- 6/ Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2018 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Arizona Department of Administration (ADOA), up to \$275,000 in Personal Services and Employee Related Expenditures (ERE) for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or ERE or for maintenance contracts on building components and equipment without review by the JCCR. (Capital Outlay Appropriation Act footnote)

- 7/ ADOA shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund (COSF) established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the ADOA for building renewal, the appropriation to the ADOA is reduced by the difference between the amount appropriated to the ADOA from COSF and the balance in COSF. ADOA may allocate the appropriation in this subsection for the replacement of modular offices and remote housing at the Department of Public Safety. (Capital Outlay Appropriation Act footnote)
- 8/ The FY 2017 appropriation represents 67.8% of the ADOA building renewal formula, while the FY 2018 appropriation represents 20.0%
- 9/ The sum of \$5,700,000 is appropriated from the state General Fund in FY 2019 to the Department of Administration to be used for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of this amount, 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 JCCR. The Department of Administration shall submit the scope, purpose and estimated cost of the building renewal projects to the JLBC for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 10/ The amount appropriated in FY 2017 includes \$4,200,000 for the renovation of the Department of Health Services building at 1740 West Adams. Before spending the monies allocated for this purpose, ADOA shall submit a report on tenant relocation, including any planned consolidation of state agencies, the current commitment of new tenants and the timeline and estimated costs for relocation for review by the JCCR. (Capital Outlay Appropriation Act footnote)
- 11/ The amount appropriated in FY 2017 includes \$120,000 to repair the 1938 Works Progress Administration Civic Building on the State Fair grounds. The department may not spend the monies allocated for this purpose unless the department receives matching monies from the City of Phoenix to repair the building and this state maintains control and ownership of the building. (Capital Outlay Appropriation Act footnote)
- 12/ On or before January 31, 2018 and July 31, 2018, ADOA shall report to the Joint Legislative Budget Committee (JLBC) Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)
- 13/ On or before January 31, 2018 and July 31, 2018, the State Department of Corrections shall report to the JLBC Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)
- 14/ The FY 2017 appropriations represent 27.2% of the Department of Corrections (ADC) building renewal formula, while the FY 2018 appropriation represents 26.1%.
- 15/ The sum of \$1,450,000 is appropriated from the Department of Corrections Building Renewal Fund established by A.R.S. § 41-797, in FY 2018 to the State Department of Corrections for the replacement of locking systems at state prison facilities. The State Department of Corrections shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 16/ The sum of \$1,000,000 is appropriated from the Arizona Exposition and State Fair Fund established by A.R.S. § 3-1005, in FY 2017 and FY 2018 to the Arizona Exposition and State Fair Board for capital improvements. The Arizona Exposition and State Fair Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 17/ The FY 2017 appropriation represents 59.4% funding of the Arizona Game and Fish Department building renewal formula, while the FY 2018 appropriation represents 57.0%.
- 18/ The Arizona Game and Fish Department shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 19/ The FY 2017 appropriation represents 126.7% funding of the Department of Juvenile Corrections building renewal formula.
- 20/ Both the FY 2017 and FY 2018 appropriations represent 100% funding of the building renewal formula.
- 21/ The sum of \$1,500,000 in FY 2017 and \$1,300,000 in FY 2018 is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 to the Arizona State Parks Board for capital improvements. The Arizona State Parks Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 22/ The FY 2018 Capital Outlay Bill appropriated an FY 2017 supplemental of \$1,500,000 from the State Parks Revenue Fund for major maintenance and repairs. This amount is displayed in the State Parks Board's operating budget.
- 23/ The sum of \$4,000,000 is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 in FY 2018 to the Arizona State Parks Board for the Rockin' River Ranch State Park Project. The Arizona State Parks Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 24/ The sum of \$10,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Veterans' Services for the establishment and construction of a veterans' home facility in Flagstaff. The amount appropriated in Subsection A of this section is intended to be this state's share of the costs of a veterans' home facility in Flagstaff. The department may not spend the appropriation for any purpose unless the department receives an irrevocable commitment from the United States government to fund at least 65% of the total costs of a veterans' home facility in Flagstaff. The appropriation made in subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. The Department of Veterans' Services shall submit the scope, purpose and estimated cost of the veterans' home facility in Flagstaff to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 25/ Includes \$4,000,000 from the State Highway Fund in FY 2017 to fund 32.6% of the revised highways building renewal formula in FY 2017 and \$4,500,000 in FY 2018 to fund 35.8% of the formula in FY 2018. Also includes \$232,300 from the State Aviation Fund in FY 2017 to fund 100% of the aviation building renewal formula in FY 2017 and \$232,300 in FY 2018 to fund 96.0% formula in FY 2018
- 26/ The appropriations 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. (FY 2017 Capital Outlay Appropriation Act footnote)
- 27/ The appropriations do not lapse until the purpose for which the respective appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or encumbrance. (FY 2018 Capital Outlay Appropriation Act footnote)
- 28/ The amount is appropriated from the State Aviation Fund established in A.R.S. § 28-8202 for the planning, construction, development, and improvement of state, county, city, or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to ADOT for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 29/ The amount appropriated for highway construction is from the SHF established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the SHF in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 30/ The Department of Transportation shall report on or before November 1, 2017 to JCCR on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report shall be in the same format as in the prior year unless modifications have been approved by the Directors of JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB). (Capital Outlay Appropriation Act footnote)

- 31/ The sum of \$30,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for Interstate 10 widening projects. These monies shall be combined with funding from the Federal Fostering Advancements in Shipping and Transportation for the Long Term Achievement of National Efficiencies grant to widen: (1) Interstate 10 from Earley Road to Interstate 8. (2) The Interstate 10 interchange with State Route 87. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the JCCR. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation does not receive a Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 32/ The sum of \$25,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for the acceleration of the State Route 189 construction project from the Mariposa Port of Entry to Interstate 19. Notwithstanding A.R.S. § 41-1252 the appropriation made in subsection A of this section is not subject to review by the JCCR. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation is unable to use the appropriation made in subsection A of this section to accelerate construction of the State Route 189 project from FY 2021 to at least FY 2019, or if the department is successful in its application for a \$25,000,000 Transportation Investment Generating Economic Recovery grant for the State Route 189 project, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 33/ The sum of \$1,500,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for distribution to the Navajo Nation for the Route H60 construction project. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the JCCR. (Capital Outlay Appropriation Act footnote)
- 34/ The sum of \$1,100,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2018 to the Department of Transportation for the construction of 2 deicer buildings. The Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 35/ The FY 2018 Capital Outlay Appropriation Act amends the FY 2017 Capital Outlay Appropriation Act that instead of \$5,530,000 for 10 vehicle wash systems, the monies are appropriated for the following:
1. \$2,344,800 for the construction of 6 vehicle wash systems.
 2. \$3,185,200 for distribution as follows: (a) To the counties, 33.231%; (b) To the incorporated cities and towns, 48.097%; (c) To incorporated cities with a population of 300,000 or more persons, 5.247%; (d) To counties with a population of more than 800,000 persons, 13.425%.
- 36/ B. The allocation and distribution made pursuant to subsection A, paragraph 2, subdivisions (a), (b) and (c) of this section (above footnote) shall be made as prescribed in A.R.S. § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 2, subdivision (d) of this section shall be made as prescribed in A.R.S. § 28-6538B.
- C. The amounts appropriated in subsection A, paragraph 2 of this section [\$3,185,200 appropriation] may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto.
- D. Before spending the appropriation in subsection A, paragraph 1 of this section, the Department of Transportation shall submit the scope, purpose and estimated cost of the projects to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 37/ The appropriation made by Laws 2015, Chapter 9, section 4 [FY 2016 Capital Outlay Bill] that remains unexpended on June 30, 2018 reverts to the fund from which the monies were appropriated. [Refers to the \$2,910,000 appropriated from the State Highway Fund in FY 2016 to ADOT for the construction of 6 vehicle wash systems]. (Capital Outlay Appropriation Act footnote)
- 38/ The appropriations made by Laws 2016, Chapter 126, section 7, as amended by this act, that remain unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- 39/ The sum of \$4,000,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2018 to the Department of Transportation for the construction of a new equipment service shop in Safford. The Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 40/ The sum of \$240,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2018 to the Department of Transportation for capital improvements to the impound storage yard in Tempe. The Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 41/ A. The sum of \$30,000,000 on a one-time basis from the Highway Expansion and Extension Loan Program Fund in FY 2018 and FY 2019 to ADOT for distribution as follows:
1. To the counties, 33.231%.
 2. To the incorporated cities and towns, 48.097%.
 3. To incorporated cities with a population of 300,000 or more persons, 5.247%.
 4. To counties with a population of more than 800,000 persons, 13.425%.
- B. The allocation and distribution made pursuant to subsection A, paragraphs 1, 2 and 3 of this section shall be made as prescribed in A.R.S. § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 4 of this section shall be made as prescribed in A.R.S. § 28-6538B.
- C. The amounts appropriated in this section may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto. (FY 2018 Revenues Budget Reconciliation Bill (Laws 2017, Chapter 312))
- 42/ A. The sum of \$30,000,000 is appropriated on a one-time basis from the state General Fund in FY 2017 to the Department of Transportation for distribution as follows:
1. To the counties, 33.231%.
 2. To the incorporated cities and towns, 48.097%.
 3. To incorporated cities with a population of 300,000 or more persons, 5.247%.
 4. To counties with a population of more than 800,000 persons, 13.425%.
- B. The allocation and distribution made pursuant to subsection A, paragraphs 1, 2 and 3 of this section shall be made as prescribed in A.R.S. § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 4 of this section shall be made as prescribed in A.R.S. § 28-6538B.
- C. The amount appropriated in this section may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights of way acquisitions and expenses related thereto. (Laws 2016, Chapter 125)
- 43/ On or before November 1, 2016, ADOT shall report capital outlay information for FY 2016, FY 2017, and FY 2018 to the Directors of JLBC and OSPB. This information must appear in the same format as tables 2, 3 and 5, as found in the *FY 2016 Appropriations Report*. (FY 2017 Capital Outlay Appropriation Act footnote)
- 44/ On or before November 1, 2017, ADOT shall report capital outlay information for FY 2017, FY 2018, and FY 2019 to the Directors of JLBC and OSPB. This information must appear in the same format as tables 2, 3 and 6, as found in the *FY 2017 Appropriations Report*. (FY 2018 Capital Outlay Appropriation Act footnote)

- 45/ On or before November 1, 2016, ADOT shall report the department's estimated outstanding debt principal balance at the end of FY 2018 and the estimated debt service payment amount for FY 2018 to the Directors of the JLBC and OSPB. This report shall include State Highway Fund statewide construction bonds, Arizona Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and grant anticipation notes and is intended to be comparable to the information in the *FY 2016 Appropriations Report*. (FY 2017 Capital Outlay Appropriation Act footnote)
- 46/ On or before November 1, 2017, ADOT shall report the department's estimated outstanding debt principal balance at the end of FY 2019 and the estimated debt service payment amount for FY 2019 to the Directors of the JLBC and OSPB. This report shall include State Highway Fund statewide construction bonds, Arizona Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and grant anticipation notes and is intended to be comparable to the information in the *FY 2016 Appropriations Report*. (FY 2018 Capital Outlay Appropriation Act footnote)

SUMMARY OF ADDITIONAL OPERATING AND STATUTORY APPROPRIATIONS 1/ 2/

GENERAL FUND

	FY 2017	FY 2018
Administration, Arizona Department of Laws 2016, Ch. 372 (HB 2666) Governor's Economic Opportunity Office; Consolidation	(568,700)	
Agriculture, Department of Laws 2017, Ch. 280 (HB 2253) State Veterinarian; Animal Identification; Appropriation Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments	198,400	368,000
Attorney General - Department of Law 23-263 - Military Airport Planning; Appropriation	85,000	85,000
Commerce Authority, Arizona 43-409 - Arizona Commerce Authority Income Tax Withholding	21,500,000	21,800,000
Community Colleges 42-5031.01 - Indian Tribal Postsecondary Educational Institutions 15-1469.01 - Rural County Allocation Subtotal - Community Colleges	2,625,000 2,730,600 <u>5,355,600</u>	2,625,000 2,730,600 <u>5,355,600</u>
Corrections, State Department of Laws 2017, Ch. 17 (SB 1179) Appropriations; Named Claimants	6,900	
Economic Opportunity, Office of Laws 2016, Ch. 372 (HB 2666) Governor's Economic Opportunity Office; Consolidation	1,068,700	
Economic Security, Department of Laws 2016, Ch. 214 (HB 2388) Qualified Disability Expenses; Eligible Individuals	240,000	
Education, State Board of Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees	(231,200)	
Education, Department of Laws 2017, Ch. 284 (SB 1038) Teachers; Professional Development; Pilot Program Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees Laws 2015, 1st Special Session, Ch. 1 (HB 2001) Schools; Base Level; Appropriations	231,200 50,000,000	300,000 50,000,000
Emergency and Military Affairs, Department of 26-263 - Military Airport Planning; Appropriation 35-192 - Governor's Emergency Authority Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments Subtotal - Department of Emergency and Military Affairs	90,000 4,000,000 1,424,400 <u>5,514,400</u>	90,000 4,000,000 <u>4,090,000</u>
Environmental Quality, Department of 49-282 - WQARF Priority Site Remediation Laws 2017, Ch. 308 (HB 2541) Environment BRB Laws 2016, Ch. 120 (HB 2702) Environment BRB Subtotal - Department of Environmental Quality	15,000,000 <u>(12,176,400)</u> 2,823,600	15,000,000 <u>(12,176,400)</u> 2,823,600
Financial Institutions, Department of Laws 2017, Ch. 334 (SB 1197) Real Estate Appraisal		675,000 <u>3/</u>
Forestry and Fire Management, Arizona Department of 37-623 - Wild Land Fire Emergency	3,000,000	3,000,000
Gaming, Department of Laws 2016, Ch. 342 (SB 1435) Racing Commission; Continuation; Conforming Changes	200,000	
Governor, Office of Laws 2016, Ch. 248 (HB 2665) Charter Schools; Preference; Foster Children		1,500,000
Health Services, Department of Laws 2017, Ch. 17 (SB 1179) Appropriations; Named Claimants	1,900	
Historical Society, Arizona Laws 2016, Ch. 128 (SB 1530) Agency Consolidation BRB	(428,300)	
Postsecondary Education, Commission for Laws 2017, Ch. 304 (HB 2545) K-12 Education BRB		235,000

	FY 2017	FY 2018
Public Safety Personnel Retirement System		
38-810 - EORP Closure	5,000,000	5,000,000
Radiation Regulatory Agency		
Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments	789,700	
School Facilities Board		
Laws 2016, Ch. 129 (SB 1531) Credit Enhancement; Budget Reconciliation; 2016-2017	500,000	
Arizona State University - Tempe/DPC		
15-1670 - University Research Infrastructure Financing	13,555,000	12,564,000
Laws 2016, Ch. 130 (SB 1537) Higher Education BRB	(951,900)	
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(2,329,800)	
Subtotal - Arizona State University - Tempe/DPC	<u>10,273,300</u>	<u>12,564,000</u>
Arizona State University - East Campus		
15-1670 - University Research Infrastructure Financing	917,000	917,000
Northern Arizona University		
15-1670 - University Research Infrastructure Financing	5,900,000	5,896,500
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(1,653,200)	
Subtotal - Northern Arizona University	<u>4,246,800</u>	<u>5,896,500</u>
University of Arizona - Main Campus		
15-1670 - University Research Infrastructure Financing	14,253,000	14,249,300
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(274,600)	
Laws 2017, Ch. 285 (SB 1184) Appropriation; Arizona Geological Survey		941,000
Laws 2016, Ch. 128 (SB 1530) Agency Consolidation BRB	428,300	
Subtotal - University of Arizona - Main Campus	<u>14,406,700</u>	<u>15,190,300</u>
Water Infrastructure Finance Authority		
Laws 2016, Ch. 372 (HB 2666) Governor's Economic Opportunity Office; Consolidation	(500,000)	
Other		
9-602 - Phoenix Convention Center Financing	20,449,000	22,499,000
42-5031 - Rio Nuevo Multi-Purpose Facility District 4/	10,000,000	10,000,000
GENERAL FUND TOTAL	<u>155,080,000</u>	<u>162,299,000</u>

OTHER FUNDS

	FY 2017	FY 2018
Administration, Arizona Department of		
Laws 2017, Ch. 17 (SB 1179) Appropriations; Named Claimants	3,300	
Agriculture, Department of		
Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments		275,000
Laws 2016, Ch. 221 (SB 1270) Pest Management Division	1,699,500	
Corrections, State Department of		
Laws 2016, Ch. 153 (SB 1246) Corrections Department; Revolving Fund Uses	596,000	
Arizona Criminal Justice Commission		
Laws 2017, Ch. 286 (SB 1278) Felony Pretrial Intervention Programs; Appropriation		2,750,000
Education, State Board of		
Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees	(379,800)	
Education, Department of		
Laws 2016, Ch. 124 (HB 2707) K-12 Education BRB	500,000	
Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees	379,800	
Subtotal - Department of Education	<u>879,800</u>	<u>0</u>
Emergency and Military Affairs, Department of		
Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments		1,438,400
Environmental Quality, Department of		
Laws 2017, Ch. 308 (HB 2541) Environment BRB		10,713,300
Laws 2016, Ch. 120 (HB 2702) Environment BRB	7,125,000	

	<u>FY 2017</u>	<u>FY 2018</u>
Financial Institutions, Department of Laws 2017, Ch. 334 (SB 1197) Real Estate Appraisal		(815,100) ^{3/}
Health Services, Department of Laws 2017, Ch. 17 (SB 1179) Appropriations; Named Claimants Laws 2016, Ch. 207 (HB 2640) Appropriation; Pediatric Neurological Autoimmune Disorders Subtotal - Department of Health Services	1,000 250,000 <u>251,000</u>	 <u>0</u>
Judiciary - Supreme Court Laws 2017, Ch. 303 (HB 2540) Criminal Justice BRB		750,000
Medical Board, Arizona Laws 2016, Ch. 137 (HB 2502) Medical Licensure Compact	50,000	
Parks Board, Arizona State Laws 2017, Ch. 306 (SB 1523) Capital Outlay Bill	1,500,000	
Pest Management, Office of Laws 2016, Ch. 221 (SB 1270) Pest Management Division	(1,699,500)	
Radiation Regulatory Agency Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments		789,700
Transportation, Department of Laws 2017, Ch. 17 (SB 1179) Appropriations; Named Claimants	<u>6,400</u>	<u></u>
OTHER FUNDS TOTAL	<u><u>10,031,700</u></u>	<u><u>15,901,300</u></u>

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

^{2/} Excludes most General Appropriation Act and Capital Outlay Appropriations amounts.

^{3/} The FY 2018 General Appropriation Act appropriates \$815,100 from the Board of Appraisal Fund in FY 2018. However, Laws 2017, Chapter 334 eliminates the Board of Appraisal Fund, transfers any amount remaining in the fund to the General Fund and appropriates \$675,000 from the General Fund for real estate appraisal duties.

^{4/} Represents an estimate of available funding.

**SUMMARY OF TOTAL SPENDING AUTHORITY BY AGENCY
(APPROPRIATED AND NON-APPROPRIATED FUNDS)
Fiscal Years 2017 and 2018 1/**

	Fiscal Year 2017			Fiscal Year 2018		
	Appropriated General and Other Funds	Non-Appropriated Federal and Other Funds <u>2/</u>	Total	Appropriated General and Other Funds	Non-Appropriated Federal and Other Funds <u>2/</u>	Total
BUDGET UNITS						
Accountancy, State Board of	\$1,937,000	\$0	\$1,937,000	\$2,042,200	\$0	\$2,042,200
Acupuncture Examiners, Board of	178,500	0	178,500	185,500	0	185,500
Administration, Arizona Department of	201,711,000	1,104,222,700	1,305,933,700	197,883,300	1,134,784,200	1,332,667,500
- Automation Projects Fund	59,656,300	0	59,656,300	68,061,900	0	68,061,900
Administrative Hearings, Office of	860,500	749,500	1,610,000	870,900	749,500	1,620,400
African-American Affairs, Arizona Commission of	125,000	12,300	137,300	125,800	12,300	138,100
Agriculture, Arizona Department of	10,597,100	18,096,100	28,693,200	11,280,200	18,096,100	29,376,300
AHCCCS	2,029,179,900	9,866,790,900	11,895,970,800	2,136,791,500	10,145,639,000	12,282,430,500
Arts, Arizona Commission on the	1,500,000	2,289,000	3,789,000	1,500,000	2,289,000	3,789,000
Athletic Training, Board of	119,100	0	119,100	120,600	0	120,600
Attorney General - Department of Law	69,784,500	55,994,400	125,778,900	72,558,100	55,673,400	128,231,500
Automobile Theft Authority	5,295,500	103,000	5,398,500	5,301,400	103,000	5,404,400
Barbers, Board of	370,700	0	370,700	345,800	0	345,800
Behavioral Health Examiners, Board of	1,759,100	0	1,759,100	1,777,800	0	1,777,800
Charter Schools, State Board for	1,185,200	29,000	1,214,200	1,200,600	29,000	1,229,600
Child Safety, Department of	557,318,500	415,269,400	972,587,900	560,401,100	415,540,800	975,941,900
Chiropractic Examiners, State Board of	451,100	0	451,100	455,100	0	455,100
Citizens Clean Elections Commission	0	10,423,400	10,423,400	0	10,423,400	10,423,400
Commerce Authority, Arizona	21,800,000	10,096,200	31,896,200	21,800,000	9,269,400	31,069,400
Community Colleges, Arizona	54,312,700	18,991,700	73,304,400	55,086,500	18,991,700	74,078,200
Constable Ethics Standards and Training Board	0	497,700	497,700	0	497,700	497,700
Contractors, Registrar of	12,165,400	4,666,800	16,832,200	12,268,400	4,666,800	16,935,200
Corporation Commission	28,937,200	825,000	29,762,200	27,273,900	825,000	28,098,900
Corrections, State Department of	1,097,159,500	57,849,000	1,155,008,500	1,119,178,000	57,849,000	1,177,027,000
Cosmetology, Board of	1,805,200	0	1,805,200	1,864,500	0	1,864,500
County Funding	14,000,500	0	14,000,500	15,650,700	0	15,650,700
Criminal Justice Commission, Arizona	6,445,400	17,429,400	23,874,800	9,202,600	13,431,000	22,633,600
Deaf and the Blind, Schools for the	33,055,800	17,938,300	50,994,100	33,810,700	17,938,300	51,749,000
Deaf and the Hard of Hearing, Commission for the	4,309,500	0	4,309,500	4,622,600	0	4,622,600
Dental Examiners, State Board of	1,214,500	0	1,214,500	1,229,900	0	1,229,900
Early Childhood Development and Health Board, Arizona	0	141,726,400	141,726,400	0	152,948,900	152,948,900
Economic Opportunity, Office of	1,068,700	209,319,900	210,388,600	484,100	209,325,700	209,809,800
Economic Security, Department of	832,217,200	3,224,052,100	4,056,269,300	880,218,000	3,333,963,200	4,214,181,200
Education, State Board of	1,094,000	0	1,094,000	1,153,600	0	1,153,600
Education, Department of	4,319,851,800	1,766,060,900	6,085,912,700	4,481,417,100	1,852,407,200	6,333,824,300
Emergency and Military Affairs, Department of	12,619,500	67,380,600	80,000,100	12,676,700	55,618,900	68,295,600
Environmental Quality, Department of	79,158,500	104,253,100	183,411,600	83,046,000	74,253,100	157,299,100
Equal Opportunity, Governor's Office of	189,100	0	189,100	191,900	0	191,900
Equalization, State Board of	643,000	0	643,000	646,400	0	646,400

	Fiscal Year 2017			Fiscal Year 2018		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Executive Clemency, Board of	952,600	43,600	996,200	963,500	43,600	1,007,100
Exposition and State Fair Board, Arizona	11,613,300	0	11,613,300	12,153,300	0	12,153,300
Financial Institutions, Department of	5,246,300	1,388,700	6,635,000	5,427,800	1,079,600	6,507,400
Forestry and Fire Management, Arizona Department of	10,442,800	43,616,800	54,059,600	11,922,500	43,616,800	55,539,300
Funeral Directors and Embalmers, Board of	373,300	0	373,300	378,200	0	378,200
Game and Fish Department, Arizona	42,238,600	80,097,000	122,335,600	44,309,200	77,384,000	121,693,200
Gaming, Department of	18,298,200	1,370,000	19,668,200	17,403,700	1,370,000	18,773,700
Governor, Office of the	6,849,900	23,580,700	30,430,600	8,871,400	23,580,700	32,452,100
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	1,994,000	2,014,600	0	2,014,600
Health Services, Department of	139,421,900	324,352,600	463,774,500	140,275,900	324,352,600	464,628,500
Historical Society, Arizona	2,722,900	1,171,400	3,894,300	3,179,800	1,136,700	4,316,500
Historical Society, Prescott	824,500	829,800	1,654,300	840,200	829,800	1,670,000
Homeland Security, Arizona Department of	0	30,561,100	30,561,100	0	30,561,100	30,561,100
Homeopathic and Integrated Medicine Examiners, Board of	103,000	0	103,000	89,000	0	89,000
Housing, Arizona Department of	1,129,900	98,400,900	99,530,800	1,153,200	110,788,600	111,941,800
Independent Redistricting Commission	1,115,300	0	1,115,300	0	0	0
Industrial Commission of Arizona	19,881,300	20,967,100	40,848,400	20,110,400	20,967,100	41,077,500
Insurance, Department of	5,824,300	20,405,000	26,229,300	5,878,300	27,730,700	33,609,000
Judiciary						
Supreme Court	48,428,300	21,599,200	70,027,500	49,125,800	21,599,200	70,725,000
Court of Appeals	14,280,400	0	14,280,400	14,723,000	0	14,723,000
Superior Court	91,471,100	4,887,100	96,358,200	89,387,000	4,887,100	94,274,100
SUBTOTAL - Judiciary	154,179,800	26,486,300	180,666,100	153,235,800	26,486,300	179,722,100
Juvenile Corrections, Department of	39,560,200	1,324,300	40,884,500	36,204,900	1,324,300	37,529,200
Land Department, State	17,738,000	886,000	18,624,000	19,615,900	871,000	20,486,900
Legislature						
Auditor General	18,066,500	1,960,300	20,026,800	18,888,800	1,960,300	20,849,100
House of Representatives	13,201,500	0	13,201,500	13,419,100	0	13,419,100
Joint Legislative Budget Committee	2,488,300	0	2,488,300	2,513,800	0	2,513,800
Legislative Council	8,465,400	0	8,465,400	8,278,400	0	8,278,400
Senate	9,408,500	0	9,408,500	9,548,100	0	9,548,100
SUBTOTAL - Legislature	51,630,200	1,960,300	53,590,500	52,648,200	1,960,300	54,608,500
Liquor Licenses and Control, Department of	3,007,400	1,076,000	4,083,400	3,047,500	1,076,000	4,123,500
Lottery Commission, Arizona State	113,225,100	628,777,900	742,003,000	114,420,900	656,454,900	770,875,800
Massage Therapy, Board of	470,100	0	470,100	466,100	0	466,100
Medical Board, Arizona	6,463,600	0	6,463,600	6,841,900	0	6,841,900
Mine Inspector, State	1,325,400	409,200	1,734,600	1,339,700	434,300	1,774,000
Naturopathic Physicians Medical Board	184,200	0	184,200	183,000	0	183,000
Navigable Stream Adjudication Commission	324,000	0	324,000	325,500	0	325,500
Nursing, State Board of	4,784,800	414,700	5,199,500	4,860,500	518,600	5,379,100
Nursing Care Institution Administrators Board <u>3/</u>	445,400	0	445,400	426,500	0	426,500
Occupational Therapy Examiners, Board of	170,700	0	170,700	183,700	0	183,700
Opticians, State Board of Dispensing	140,000	0	140,000	141,700	0	141,700
Optometry, State Board of	210,100	0	210,100	222,200	0	222,200
Osteopathic Examiners, Arizona Board of <u>4/</u>	940,500	0	940,500	913,100	0	913,100
Parents Commission on Drug Educ. & Prev., Arizona	300,000	4,788,000	5,088,000	0	5,088,000	5,088,000

	Fiscal Year 2017			Fiscal Year 2018		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Parks Board, Arizona State	15,986,900	23,698,200	39,685,100	14,401,500	14,661,100	29,062,600
Personnel Board, State	375,300	0	375,300	378,100	0	378,100
Pharmacy, Arizona State Board of	2,135,200	727,900	2,863,100	2,285,100	727,900	3,013,000
Physical Therapy, Board of	484,200	0	484,200	448,000	0	448,000
Pioneers' Home, Arizona	6,174,600	28,100	6,202,700	6,605,600	28,100	6,633,700
Podiatry Examiners, State Board of	148,400	0	148,400	149,700	0	149,700
Postsecondary Education, Commission for	2,930,900	862,900	3,793,800	3,422,900	862,900	4,285,800
Power Authority, Arizona	0	37,652,000	37,652,000	0	37,652,000	37,652,000
Private Postsecondary Education, Board for	396,100	277,000	673,100	421,000	277,000	698,000
Psychologist Examiners, State Board of	475,400	0	475,400	480,600	0	480,600
Public Safety, Department of	292,584,800	117,631,400	410,216,200	284,262,900	106,404,700	390,667,600
Public Safety Personnel Retirement System	6,000,000	11,212,000	17,212,000	6,000,000	11,255,900	17,255,900
Radiation Regulatory Agency	2,411,200	476,500	2,887,700	2,434,000	476,500	2,910,500
Real Estate Department, State	2,994,900	178,900	3,173,800	3,028,000	178,900	3,206,900
Residential Utility Consumer Office	1,331,400	0	1,331,400	1,344,300	0	1,344,300
Respiratory Care Examiners, Board of	300,300	0	300,300	323,300	0	323,300
Retirement System, Arizona State	27,484,200	74,141,000	101,625,200	25,167,700	80,662,000	105,829,700
Revenue, Department of	78,233,200	588,000	78,821,200	77,733,700	588,000	78,321,700
School Facilities Board	228,094,400	91,567,000	319,661,400	292,286,600	90,594,000	382,880,600
Secretary of State	18,650,700	4,292,200	22,942,900	15,885,600	4,292,200	20,177,800
Tax Appeals, State Board of	266,600	0	266,600	268,300	0	268,300
Technical Registration, State Board of	2,916,400	11,200	2,927,600	2,233,700	11,200	2,244,900
Tourism, Office of	7,112,000	14,139,900	21,251,900	7,112,000	14,139,900	21,251,900
Transportation, Department of	373,866,300	70,457,800	444,324,100	390,676,100	70,437,800	461,113,900
Treasurer, State	6,223,200	4,445,600	10,668,800	6,584,500	4,445,600	11,030,100
Tribal Relations, Governor's Office on	57,500	13,500	71,000	58,000	13,500	71,500
Universities						
Board of Regents	21,928,400	9,257,400	31,185,800	6,909,300	6,095,900	13,005,200
Arizona State University - Tempe/DPC	846,778,100	1,567,922,000	2,414,700,100	866,293,800	1,641,309,800	2,507,603,600
Arizona State University - East Campus	66,826,400	63,910,500	130,736,900	67,193,400	67,362,900	134,556,300
Arizona State University - West Campus	75,013,100	135,684,200	210,697,300	75,459,700	136,865,500	212,325,200
Northern Arizona University	252,510,300	385,921,400	638,431,700	255,974,900	391,895,200	647,870,100
University of Arizona - Main Campus	602,200,700	1,301,035,300	1,903,236,000	607,921,400	1,345,629,600	1,953,551,000
University of Arizona - Health Sciences Center	116,351,200	532,452,100	648,803,300	117,337,300	551,088,000	668,425,300
SUBTOTAL - Universities	1,981,608,200	3,996,182,900	5,977,791,100	1,997,089,800	4,140,246,900	6,137,336,700
Veterans' Services, Department of	38,100,900	5,410,800	43,511,700	41,608,500	5,510,800	47,119,300
Veterinary Medical Examining Board	651,900	0	651,900	590,000	0	590,000
Water Resources, Department of	15,131,700	8,950,500	24,082,200	18,121,500	8,950,500	27,072,000
OPERATING BUDGET SUBTOTAL	\$13,241,334,900	\$22,890,919,500	\$36,132,254,400	\$13,694,172,500	\$23,535,398,000	\$37,229,570,500
Unallocated Adjustments	(4,619,500)	0	(4,619,500)	4,251,500	0	4,251,500
Agency Relocation <u>5/</u>	576,800	0	576,800	0	0	0
State Highway Transportation Funding	56,500,000	0	56,500,000	0	0	0
Local HURF Transportation Funding	30,000,000	0	30,000,000	30,000,000	0	30,000,000
Capital Outlay Projects	351,217,500	1,451,254,000	1,802,471,500	372,080,100	1,230,105,000	1,602,185,100
Capital Outlay - Debt Service	84,117,400	0	84,117,400	84,115,100	0	84,115,100

	Fiscal Year 2017			Fiscal Year 2018		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Civic Center Debt Service	20,449,000	0	20,449,000	22,499,000	0	22,499,000
Rio Nuevo Distribution	10,000,000	0	10,000,000	10,000,000	0	10,000,000
Executive Reductions/Efficiency Savings	0	0	0	(10,000,000)	0	(10,000,000)
Administrative Adjustments	100,000,000	0	100,000,000	100,000,000	0	100,000,000
Revertments	(140,000,000)	0	(140,000,000)	(140,682,500)	0	(140,682,500)
GRAND TOTAL	\$13,749,576,100	\$24,342,173,500	\$38,091,749,600	\$14,166,435,700	\$24,765,503,000	\$38,931,938,700

1/ This table summarizes FY 2017 and FY 2018 appropriations from the 1st Regular Session of the 53rd Legislature and all prior sessions.

2/ The amounts shown are generally based on estimates published in the JLBC Staff's *Baseline Book* (January 2017), but may have been updated for later information.

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

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

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

STATE PERSONNEL SUMMARY

Full-Time Equivalent Positions by Agency for Fiscal Years 2017 and 2018 1/

BUDGET UNITS	Fiscal Year 2017			Fiscal Year 2018		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Accountancy, State Board of	0.0	13.0	13.0	0.0	14.0	14.0
Acupuncture Board of Examiners	0.0	1.0	1.0	0.0	1.0	1.0
Administration, Arizona Department of	114.2	417.9	535.1	114.2	417.9	535.1
Automation Projects Fund	0.0	15.0	15.0	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	437.9	555.1	114.2	437.9	555.1
Administrative Hearings, Office of	12.0	0.0	12.0	12.0	0.0	12.0
African-American Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Agriculture, Arizona Department of <u>2/3/</u>	182.0	14.3	196.3	187.1	17.2	204.3
AHCCCS	455.6	685.6	1,141.2	455.6	685.6	1,141.2
AHCCCS - DES Eligibility	564.2	620.9	1,185.1	564.2	620.9	1,185.1
SUBTOTAL - AHCCCS <u>4/</u>	1,019.8	1,306.5	2,326.3	1,019.8	1,306.5	2,326.3
Athletic Training, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Attorney General - Department of Law <u>5/</u>	218.6	362.1	580.7	218.6	362.1	580.7
Automobile Theft Authority	0.0	6.0	6.0	0.0	6.0	6.0
Barbers, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Behavioral Health Examiners, Board of	0.0	17.0	17.0	0.0	17.0	17.0
Charter Schools, State Board for	14.0	0.0	14.0	14.0	0.0	14.0
Child Safety, Department of <u>6/</u>	1,527.2	1,665.9	3,193.1	1,527.2	1,665.9	3,193.1
Chiropractic Examiners, State Board of	0.0	5.0	5.0	0.0	5.0	5.0
Contractors, Registrar of	0.0	105.6	105.6	0.0	105.6	105.6
Corporation Commission	6.0	294.9	300.9	6.0	294.9	300.9
Corrections, State Department of	9,535.0	6.0	9,541.0	9,535.0	6.0	9,541.0
Cosmetology, Board of	0.0	24.5	24.5	0.0	24.5	24.5
Criminal Justice Commission, Arizona	0.0	9.0	9.0	0.0	9.0	9.0
Deaf and the Blind, Arizona State Schools for the	263.8	277.4	541.2	263.8	277.4	541.2
Deaf and the Hard of Hearing, Commission for the	0.0	15.0	15.0	0.0	16.0	16.0
Dental Examiners, State Board of	0.0	11.0	11.0	0.0	11.0	11.0
Economic Opportunity, Office of	0.0	0.0	0.0	5.0	0.0	5.0
Economic Security, Department of <u>7/</u>	1,366.5	2,851.5	4,218.0	1,388.1	2,901.3	4,289.4
Education, State Board of	4.0	0.0	4.0	6.0	0.0	6.0
Education, Department of	135.9	36.0	171.9	135.9	36.0	171.9
Emergency and Military Affairs, Department of <u>2/8/</u>	69.6	0.0	69.6	64.1	5.5	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
Forestry and Fire Management, Arizona Department of	67.0	0.0	67.0	88.0	0.0	88.0
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
Governor's Office of Strategic Planning and Budgeting	22.0	0.0	22.0	22.0	0.0	22.0
Health Services, Department of <u>9/</u>	795.9	269.6	1,065.5	795.9	269.6	1,065.5
Historical Society, Arizona	50.9	0.0	50.9	50.9	0.0	50.9
Historical Society of Arizona, Prescott	13.0	0.0	13.0	13.0	0.0	13.0
Homeopathic and Integrated Medicine Examrs., Bd. of	0.0	1.0	1.0	0.0	1.0	1.0
Housing, Department of	17.0	3.0	20.0	17.0	3.0	20.0
Industrial Commission of Arizona	0.0	235.6	235.6	0.0	235.6	235.6
Insurance, Department of	72.3	0.0	72.3	72.3	0.0	72.3
Judiciary						
Supreme Court	138.6	38.4	177.0	144.6	38.4	183.0
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	404.2	47.1	451.3	410.2	47.1	457.3
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	126.7	3.0	129.7
Legislature						
Auditor General	184.8	0.0	184.8	188.8	0.0	188.8

BUDGET UNITS	Fiscal Year 2017			Fiscal Year 2018		
	General Fund	Other Fund	Total	General Fund	Other Fund	Total
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	266.8	0.0	266.8
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	61.5	61.5	0.0	61.5	61.5
Mine Inspector, State	14.0	0.0	14.0	14.0	0.0	14.0
Naturopathic Physicians Medical Board	0.0	2.0	2.0	0.0	2.0	2.0
Navigable Stream Adjudication Commission, Arizona	2.0	0.0	2.0	2.0	0.0	2.0
Nursing, State Board of	0.0	42.2	42.2	0.0	42.2	42.2
Nursing Care Institution of Administrators, Bd	0.0	6.0	6.0	0.0	6.0	6.0
Occupational Therapy Examiners, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Opticians, State Board of Dispensing	0.0	1.0	1.0	0.0	1.0	1.0
Optometry, State Board of	0.0	2.0	2.0	0.0	2.0	2.0
Osteopathic Examiners, Arizona Board of	0.0	7.2	7.2	0.0	7.2	7.2
Parks Board, Arizona State	0.0	163.0	163.0	0.0	163.0	163.0
Personnel Board, State	0.0	3.0	3.0	0.0	3.0	3.0
Pest Management, Office of <u>3/</u>	0.0	0.0	0.0	0.0	0.0	0.0
Pharmacy, Arizona State Board of	0.0	18.0	18.0	0.0	19.0	19.0
Physical Therapy, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Pioneers' Home, Arizona	0.0	106.3	106.3	0.0	106.3	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	706.7	1,250.0	1,956.7	695.7	1,250.0	1,945.7
Radiation Regulatory Agency <u>2/</u>	21.5	13.0	34.5	16.0	18.5	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 <u>9/</u>	389.0	491.8	880.8	389.0	491.8	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
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	1.0	4,551.0	4,552.0	1.0	4,551.0	4,552.0
Treasurer, State	0.0	30.4	30.4	0.0	31.4	31.4
Tribal Relations, Governor's Office on	3.0	0.0	3.0	3.0	0.0	3.0
Universities <u>10/11/</u>						
Regents, Arizona Board of	25.9	0.0	25.9	25.9	0.0	25.9
Arizona State University - Tempe/DPC Campus	1,993.8	4,869.1	6,862.9	1,993.8	4,869.1	6,862.9
Arizona State University - East Campus	147.4	288.5	435.9	147.4	288.5	435.9
Arizona State University - West Campus	204.2	308.8	513.0	204.2	308.8	513.0
Northern Arizona University	872.3	1,388.4	2,260.7	872.3	1,388.4	2,260.7
University of Arizona - Main Campus	2,063.3	3,946.2	6,009.5	2,063.3	3,946.2	6,009.5
University of Arizona - Health Sciences Center	724.8	432.5	1,157.3	724.8	432.5	1,157.3
SUBTOTAL - Universities	6,031.7	11,233.5	17,265.2	6,031.7	11,233.5	17,265.2
Veterans' Services, Department of	116.3	396.0	512.3	116.3	396.0	512.3
Veterinary Medical Examining Board, Arizona. State	0.0	6.0	6.0	0.0	6.0	6.0
Water Resources, Department of	123.0	6.0	129.0	133.0	6.0	139.0
TOTAL APPROPRIATED FUNDS	24,474.3	28,107.0	52,584.3	24,528.0	28,173.7	52,704.7

- 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 2017 and FY 2018 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. Laws 2017, Chapter 43 appropriated 5.5 Other Fund FTE Positions in the Department of Emergency and Military Affairs, 5.5 Other Fund FTE Positions in the Radiation Regulatory Agency, and 2.88 Other Fund FTE Positions in the Department of Agriculture for FY 2018 and FY 2019.
- 3/ Laws 2017, Chapter 280 appropriated 4 General Fund FTE Positions in FY 2018 for the State Veterinarian and 3 General Fund FTE Positions in FY 2018 for the Plant Services Division.
- 4/ Includes 1,258.6 FTE Positions in FY 2017 and FY 2018 in the Other Fund FTE Positions columns funded from Federal Medicaid Expenditure Authority.

- 5/ In November 2016, the Attorney General notified the JLBC that it expected to use its full FY 2017 ISA Fund appropriation as well as 6 FTE Positions of the 11 FTE Positions and the entire \$800,000 of the ISA Reserve appropriation. As a result, the listed FY 2017 and FY 2018 amounts have increased by 6 FTE Positions and \$800,000 over the FY 2017 appropriated amounts.
- 6/ Includes 1,045.0 FTE Positions in FY 2017 and FY 2018 in the Other Fund FTE Positions columns funded from Expenditure Authority.
- 7/ Includes 1,812.4 FTE Positions in FY 2017 and 1,862.0 FTE Positions in FY 2018 in the Other Fund FTE Positions columns funded from the Long Term Care System Fund and Federal Funds for Child Support Enforcement.
- 8/ 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.
- 9/ The FY 2017 FTE allocations have been rebased to match FY 2018 allocations.
- 10/ The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) originally appropriated 16,747.9 FTE Positions to Universities for FY 2017. This FTE amount has been revised to 17,265.2 to account for increased tuition and fee collections that exceeded what was originally included in the FY 2017 budget.
- 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.

BUDGET UNITS

Arizona State Board of Accountancy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	14.0
Personal Services	731,300	806,800	866,800
Employee Related Expenditures	286,400	327,300	372,500
Professional and Outside Services	287,700	449,600	449,600
Travel - In State	2,600	5,000	5,000
Travel - Out of State	4,900	12,000	12,000
Other Operating Expenditures	226,000	295,000	295,000
Equipment	30,700	41,300	41,300
AGENCY TOTAL	1,569,600	1,937,000	2,042,200 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Accountancy Fund	1,569,600	1,937,000	2,042,200
SUBTOTAL - Other Appropriated Funds	1,569,600	1,937,000	2,042,200
SUBTOTAL - Appropriated Funds	1,569,600	1,937,000	2,042,200
TOTAL - ALL SOURCES	1,569,600	1,937,000	2,042,200

AGENCY DESCRIPTION — The board licenses, investigates, and conducts examinations of certified public accountants and public accountants. The board is also responsible for registering and investigating accounting firms owned by certified public accountants.

Operating Budget

The budget includes \$2,042,200 and 14 FTE Positions from the Board of Accountancy Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Administrative Services Officer

The budget includes an increase of \$87,400 and 1 FTE Position from the Board of Accountancy Fund in FY 2018 to fund an Administrative Services Officer responsible for central administrative functions, public information coordination, legislative bill tracking and other technical support.

Statewide Adjustments

The budget includes an increase of \$17,800 from the Board of Accountancy Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Acupuncture Board of Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	89,900	105,200	105,200
Employee Related Expenditures	17,300	22,600	22,600
Professional and Outside Services	11,900	19,900	16,900
Travel - In State	1,500	1,500	1,500
Other Operating Expenditures	8,800	16,100	26,100
OPERATING SUBTOTAL	129,400	165,300	172,300
SPECIAL LINE ITEMS			
Annual Leave Payout	0	13,200	13,200
AGENCY TOTAL	129,400	178,500	185,500 ^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Acupuncture Board of Examiners Fund	129,400	178,500	185,500
SUBTOTAL - Other Appropriated Funds	129,400	178,500	185,500
SUBTOTAL - Appropriated Funds	129,400	178,500	185,500
TOTAL - ALL SOURCES	129,400	178,500	185,500

AGENCY DESCRIPTION — The Acupuncture Board of Examiners licenses and regulates the practice of acupuncture by individuals who are not licensed to practice acupuncture by another professional board. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$172,300 and 1 FTE Position from the Acupuncture Board of Examiners Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(3,000) from the Acupuncture Board of Examiners Fund in FY 2018 to remove one-time funding for rule writing added in FY 2017.

Rulemaking

The budget includes a one-time increase of \$10,000 from the Acupuncture Board of Examiners Fund in FY 2018 for rulemaking, IT investment, and contract investigator fees.

Annual Leave Payout

The budget includes \$13,200 from the Acupuncture Board of Examiners Fund in FY 2018 for an annual leave payout

for the retiring Executive Director. This amount is unchanged from FY 2017. The Executive Director's retirement has been delayed to FY 2018. It is assumed that the FY 2017 monies will not be used and will lapse.

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$45,900 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. (Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)

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

Arizona Department of Administration

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	532.1	535.1	535.1 ^{1/}
Personal Services	25,871,200	29,170,500	29,388,200
Employee Related Expenditures	9,471,300	10,922,000	11,503,100
Professional and Outside Services	8,707,700	11,321,700	11,321,700
Travel - In State	169,100	258,800	258,800
Travel - Out of State	29,100	82,200	82,200
Other Operating Expenditures	28,147,100	34,956,500	34,956,500
Equipment	4,535,700	4,435,900	4,435,900
OPERATING SUBTOTAL	76,931,200	91,147,600	91,946,400 ^{2/}
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	6,874,000	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	7,063,100	9,406,300	9,457,500
Named Claimants	9,500	3,300	0
Information Technology Services			
Statewide Information Security and Privacy Office	853,200	870,900	874,300
Telecommunications Infrastructure	0	175,000	0
Risk Management			
Federal Transfer Payment	3,608,200	3,218,200 ^{3/}	0
Risk Management Administrative Expense	6,559,600	8,747,200	8,747,200
Risk Management Losses and Premiums	44,010,700	45,372,700	42,530,300
Workers' Compensation Losses and Premium	28,267,300	31,159,200	31,830,300
Support Services			
Government Transformation Office	824,700	1,500,000	2,010,800
Office of Grants and Federal Resources	0	0	375,900
State Surplus Property Sales Proceeds	1,005,400	1,810,000	1,810,000 ^{4/}
Other			
Southwest Defense Contracts	25,000	25,000	25,000 ^{5/}
One-Time Department of Child Safety Funding	8,403,900	0	0
AGENCY TOTAL	184,435,800	201,711,000	197,883,300 ^{6/}
FUND SOURCES			
General Fund	19,486,600	10,264,500	10,365,300
<u>Other Appropriated Funds</u>			
Administration - AFIS II Collections Fund	0	0	375,900
Air Quality Fund	488,100	927,300	927,300 ^{7/}
Arizona Financial Information System Collections Fund	7,063,100	9,406,300	9,457,500
Automation Operations Fund	18,370,000	23,937,600	24,067,000 ^{8/}
Capital Outlay Stabilization Fund	15,613,700	18,069,600	18,159,900
Corrections Fund	121,800	570,400	573,600
Federal Surplus Materials Revolving Fund	44,000	464,500	465,700
Information Technology Fund	2,571,000	3,436,000	2,948,900 ^{4/}
Motor Vehicle Pool Revolving Fund	7,290,500	10,151,300	10,154,100 ^{9/}
Personnel Division Fund	11,915,100	12,857,900	12,951,500
Risk Management Revolving Fund	89,124,100	96,267,800	90,951,400
Special Employee Health Insurance Trust Fund	4,934,000	5,256,100	5,302,000
Special Services Revolving Fund	0	592,200	812,300
State Surplus Materials Revolving Fund	1,928,800	2,947,000	2,960,600
State Web Portal Fund	3,991,600	4,542,400	5,551,600

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
Telecommunications Fund	1,493,400	2,020,100	1,858,700
SUBTOTAL - Other Appropriated Funds	164,949,200	191,446,500	187,518,000
SUBTOTAL - Appropriated Funds	184,435,800	201,711,000	197,883,300
Other Non-Appropriated Funds	1,045,032,500	1,102,528,600	1,133,090,100
Federal Funds	2,245,000	1,694,100	1,694,100
TOTAL - ALL SOURCES	1,231,713,300	1,305,933,700	1,332,667,500

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

Operating Budget

The budget includes \$91,946,400 and 504.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$8,703,800
Air Quality Fund	927,300
Automation Operations Fund	24,067,000
Capital Outlay Stabilization Fund (COSF)	10,510,000
Corrections Fund	573,600
Federal Surplus Materials Revolving Fund	465,700
Information Technology Fund	2,074,600
Motor Vehicle Pool Revolving Fund	10,154,100
Personnel Division Fund	12,951,500
Risk Management Revolving Fund	7,843,600
Special Employee Health Insurance Trust Fund	5,302,000

Special Services Revolving Fund	812,300
State Surplus Materials Revolving Fund	1,150,600
State Web Portal Fund	4,551,600
Telecommunications Fund	1,858,700

These amounts fund the following adjustments:

Central Services Bureau Staffing

The budget includes an increase of \$217,700 from the Special Services Revolving Fund in FY 2018 for additional Central Services Bureau services.

Statewide Adjustments

The budget includes an increase of \$581,100 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	90,000
Automation Operations Fund	129,400

- 1/ Includes 31 OF FTE Positions funded from Special Line Items in FY 2018.
- 2/ On or before October 1, 2017, the department shall submit a report for review by the Joint Legislative Budget Committee of the expenditures to date and progress of implementation for any monies received from the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The Joint Legislative Budget Committee may require the department to submit more frequent reports as necessary for further review. (General Appropriation Act footnote)
- 3/ 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, unless the proposed agreements have been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ All State Surplus Materials Revolving Fund monies received by the Department of Administration in excess of \$2,948,900 in FY 2018 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,948,900 in FY 2018, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 5/ 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. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 7/ The amounts appropriated for the State Employee Transportation Service Subsidy shall be used for up to a 50% subsidy of charges payable for public transportation service expenses as provided in A.R.S. § 41-710.01, of nonuniversity state employees in a vehicle emissions control area as defined in A.R.S. § 49-541, of a county with a population of more than 400,000 persons. (General Appropriation Act footnote)
- 8/ 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 2018. 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 \$24,067,000 in FY 2018, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 9/ It is the intent of the Legislature that the department not replace vehicles until they have an average of 80,000 miles or more. On or before August 1, 2017, the department shall submit a report for review by the Joint Legislative Budget Committee on the maintenance savings achieved by replacing vehicles that have an average of 80,000 miles or more. (General Appropriation Act footnote)

Capital Outlay Stabilization Fund	90,300
Corrections Fund	3,200
Federal Surplus Materials Revolving Fund	1,200
Information Technology Fund	9,500
Motor Vehicle Pool Revolving Fund	2,800
Personnel Division Fund	93,600
Risk Management Revolving Fund	76,400
Special Employee Health Insurance Trust Fund	45,900
Special Services Revolving Fund	2,400
State Surplus Materials Revolving Fund	13,600
State Web Portal Fund	9,200
Telecommunications Fund	13,600

(Please see the Agency Detail and Allocations section.)

Facilities Management

Utilities

The budget includes \$8,275,600 in FY 2018 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2017.

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

Financial Services

Arizona Financial Information System

The budget includes \$9,457,500 and 28 FTE Positions in FY 2018 from the Arizona Financial Information System Collections Fund for the Arizona Financial Information System (AFIS). These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$51,200 from the Arizona Financial Information System Collections Fund in FY 2018 for statewide adjustments.

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

Named Claimants

The budget includes no funding in FY 2018 for Named Claimants. This amount funds the following adjustments:

One-Time Named Claimants Funding

The budget includes a decrease of \$(3,300) from the Risk Management Revolving Fund in FY 2018 for the elimination of one-time funding of prior year unpaid claims.

The state must annually settle legitimate unpaid claims against received goods and services. Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2017, Chapter 17 appropriates \$3,285 from the Risk Management Revolving Fund in FY 2017 to the department for prior year unpaid claims.

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

(Please see Named Claimants discussion in Other Issues.)

Information Technology Services

Statewide Information Security and Privacy Office

The budget includes \$874,300 and 3 FTE Positions from the Information Technology Fund in FY 2018 for the Statewide Information Security and Privacy Office (SISPO). These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,400 from the Information Technology Fund in FY 2018 for statewide adjustments.

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.)*

Telecommunications Infrastructure

The budget includes no funding in FY 2018 for Telecommunications Infrastructure. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(175,000) from the Telecommunications Fund in FY 2018 for 2 one-time projects:

- \$(100,000) to replace the uninterruptable power supply for analog communication devices at the Capitol Mall.
- \$(75,000) to repair and expand fiber cabling on the Capitol Mall.

Risk Management

Federal Transfer Payment

The budget includes no funding in FY 2018 for one-time payments to the federal government. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(3,218,200) in FY 2018 from the Risk Management Revolving Fund to eliminate FY 2017 payments to the federal government for disallowed costs and for fund transfers in FY 2016.

Section 104 of the FY 2018 General Appropriation Act included an FY 2017 supplemental appropriation of \$3,218,200 from the Risk Management Revolving Fund. The FY 2018 General Appropriation Act 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, unless the proposed agreements are reviewed by the JLBC.

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government, which restricts the use of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds. *(Please see the Federal Financial Participation section in Other Issues for more information.)*

Risk Management Administrative Expenses

The budget includes \$8,747,200 from the Risk Management Revolving Fund in FY 2018 for Risk Management Administrative Expenses. This amount is unchanged from FY 2017.

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

Risk Management Losses and Premiums

The budget includes \$42,530,300 from the Risk Management Revolving Fund in FY 2018 for Risk Management Losses and Premiums. This amount funds the following adjustments:

Increased Deductible Policy

The budget includes a decrease of \$(3,526,100) from the Risk Management Revolving Fund in FY 2018 for a change in deductible policy. Starting in FY 2018, ADOA will raise the Risk Management deductible charged to state agencies with a budget over \$1,000,000 from \$100 to \$2,500. The expenditures for Risk Management as a result of the policy are expected to decrease by \$(3,526,100).

As session law, the FY 2018 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 307) exempts ADOA Risk Management from the rule making process to allow the department to increase the deductible from \$100 to \$2,500 on July 1, 2017.

Claims Related Expenditures

The budget includes an increase of \$683,700 from the Risk Management Revolving Fund in FY 2018 for an estimated increase in Risk Management Losses and Premiums. This increase is the result of an independent actuarial review of the department's claim history and exposure.

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

Workers' Compensation Losses and Premiums

The budget includes \$31,830,300 from the Risk Management Revolving Fund in FY 2018 for Workers' Compensation Losses and Premiums. This amount funds the following adjustments:

Workers' Compensation Losses

The budget includes an increase of \$671,100 from the Risk Management Revolving Fund in FY 2018 for an estimated increase in Workers' Compensation Losses and Premiums. This increase is a result of an independent actuarial review of the state's claims history and exposure.

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

Support Services

Government Transformation Office

The budget includes \$2,010,800 from the General Fund in FY 2018 for the Government Transformation Office (GTO). This amount funds the following adjustments:

Additional Resources

The budget includes an increase of \$500,000 in FY 2018 for additional GTO funding. This amount consists of:

Information Technology Fund	\$(500,000)
Web Portal Fund	\$1,000,000

Statewide Adjustments

The budget includes an increase of \$10,800 from the General Fund in FY 2018 for statewide adjustments.

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.

Office of Grants and Federal Resources

The budget includes \$375,900 in FY 2018 for the Office of Grants and Federal Resources. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$375,900 from the Arizona Financial Information System II Collections Fund in FY 2018 for the Office of Grants and Federal Resources.

The Office of Grants and Federal Resources helps state agencies, local governments, and non-profit organizations find, win and manage grants.

State Surplus Property Sales Proceeds

The budget includes \$1,810,000 from the State Surplus Materials Revolving Fund in FY 2018 for State Surplus Property Sales Proceeds. This amount is unchanged from FY 2017.

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

Other

Southwest Defense Contracts

The budget includes \$25,000 from the General Fund in FY 2018 for Southwest Defense Contracts. This amount is unchanged from FY 2017.

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.

One-Time Department of Child Safety Funding

The budget includes no funding from the General Fund in FY 2018 for One-Time Department of Child Safety Funding.

(Please see the Department of Child Safety for details regarding this line item.)

Other Issues

This section includes information on the following topics:

- FY 2017 Supplemental
- Additional Legislation
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayment
- Proposition 123

FY 2017 Supplemental

Laws 2017, Chapter 17 provides \$19,551.85 in FY 2017 supplemental funding to various agencies for Named Claimants. This amount consists of:

	<u>Claim Amount</u>
<u>General Fund</u>	
Department of Corrections	\$ 6,946.00
Department of Health Services	1,870.00
<u>Other Appropriated Funds</u>	
Department of Administration	
Risk Management Revolving Fund	3,285.00
Department of Health Services	
Arizona State Hospital Fund	1,044.00
Department of Transportation	
State Highway Fund	<u>6,406.85</u>
TOTAL	<u>\$19,551.85</u>

(See Federal Financial Participation Repayment section for another supplemental.)

Additional Legislation

Motor Vehicle Fleet Reduction Demonstration Project

Laws 2017, Chapter 297 requires the Department of Administration (ADOA) to establish a demonstration project to reduce the use of the state motor vehicle fleet, determine the most cost-effective method of travel for state employees, to be used to determine the maximum amounts for travel reimbursement.

The legislation also requires ADOA and participating agencies to reduce the overall inventory of light motor vehicles by up to 10% in FY 2019 and FY 2020.

ADOA is required submit a report or before December 1, 2019 and December 1, 2020 detailing the results of the project and any recommendations.

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. Prior to any legislation for FY 2018, the fund was expected to have ongoing revenues of \$820.3 million and ongoing expenditures of \$954.2 million. Given this potential shortfall in ongoing revenues, the FY 2018 budget included a one-time increase of \$25.0 million from the General Fund and \$76.4 million in total funds to improve the fund's overall balance. These monies were labeled as one time so as to permit additional time to assess the fund's overall condition.

The appropriated share of the \$76.4 million is allocated to agencies to pay a higher employer contribution rate. (Please see the Health Insurance section in the General Provisions section for information on current state employee health insurance rates.)

Table 1

Health Insurance Trust Fund			
Balance Sheet			
(\$ in millions)			
	<u>Actual</u>	<u>Estimated</u>	<u>Estimated</u>
	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Beginning Balance	\$ 339.8	\$ 314.5	\$ 154.4
Receipts	\$ 837.9	\$ 807.0	\$ 820.3
One-Time Increase	<u> -</u>	<u> -</u>	<u>76.4</u>
Net Revenues	\$1,177.7	\$1,121.5	\$1,051.0
Expenses	\$ 852.9	\$ 888.2	\$ 954.2
FFP Repayment ^{1/}	6.2	0.0	9.5
Transfer	<u>4.1</u>	<u>78.9</u>	<u>0</u>
Net Expenses	\$ 863.2	\$ 967.1	\$ 963.7
HITF Ending Balance	\$ 314.5	\$ 154.4	\$ 87.4

^{1/} Represents an estimated payment not yet authorized by the Legislature for the transfer of monies made in FY 2016 and FY 2017.

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 2016 as well as the estimated amounts for FY 2017 and FY 2018. Due to the unpredictable nature of the Risk Management program, ADOA tends to estimate future expenditures above historical spending levels. Table 2 also includes an adjusted FY 2018 expenditure estimate, which is closer to historical spending levels. Under this adjusted estimate, the FY 2018 ending balance would be \$63.0 million. The FY 2018 figures also reflect the deductible policy change implemented in the FY 2018 budget.

Table 2

Risk Management Revolving Fund
(\$ in thousands)

	<u>Actual FY 2016</u>	<u>Estimated FY 2017</u>	<u>Estimated FY 2018</u>
Beginning Balance	83,326.6	72,268.0	68,768.5
Revenues	<u>102,796.1</u>	<u>102,540.1</u>	<u>101,145.5</u>
<i>Total Funds Available</i>	<i>186,122.7</i>	<i>174,808.1</i>	<i>169,914.0</i>
Expenditures			
ADOA	85,506.8	88,430.3	120,094.5
Federal Repayment	<u>3,608.2</u>	<u>3,218.2</u>	-
<i>ADOA Subtotal</i>	<i>89,115.0</i>	<i>91,648.5</i>	<i>120,094.5</i>
Other Agencies			
DPS	1,228.1	1,263.7	1,314.2
DCS	2,867.6	-	2,471.2
Attorney General	<u>8,741.6</u>	<u>9,406.7</u>	<u>9,468.6</u>
<i>Other Agencies Subtotal</i>	<i>12,837.3</i>	<i>10,670.4</i>	<i>13,254.0</i>
Admin Adjustment	<u>11,902.4</u>	<u>3,720.8</u>	-
<i>Total Expenditures</i>	<i>113,854.7</i>	<i>106,039.7</i>	<i>133,348.5</i>
Ending Balance	72,268.0	68,768.5	36,565.5
Spending Adjustment ^{1/}	-	-	(30,000.0)
Adjusted Expenditures	<u>113,854.7</u>	<u>106,039.7</u>	<u>103,348.5</u>
Revised Balance	72,268.0	68,768.5	66,565.5

^{1/} Would reduce projected expenditures closer to historical ongoing spending levels which would increase the revised ending balance.

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 are used to pay for Department of Public Safety (DPS) Capitol Police salaries and provides funding for the Attorney General to defend the state in most risk management cases regarding agency liability. In addition, the FY 2016 budget included an appropriation of \$2,867,600 and the FY 2018 budget included \$2,471,200 for the Department of Child Safety litigation expenses.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government, including \$3,608,200 in FY 2016 and \$3,218,200 in FY 2017. (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 2016

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

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

The Department of Administration has since reported the actual total of federal repayment from the Risk Management Revolving Fund in FY 2016 was \$3,608,200.

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

FY 2017

The federal government has charged the state approximately \$3,218,200 for restricted use of Federal Funds in FY 2016 as follows:

- \$2,944,100 related to fund transfers in FY 2016. This amount consists of:
 - \$491,900 from the Health Insurance Trust Fund.
 - \$284,100 from the Risk Management Revolving Fund.
 - \$2,168,100 from the Automation Operations Fund.
- \$46,100 related to interest on fund transfers.
- \$228,000 related to excess retained earnings in the IT Fund.

Laws 2017, Chapter 305 included a FY 2017 supplemental of \$3,218,200 from the Risk Management Fund to pay for these FY 2016 costs.

(Please see the Federal Transfer Payment line item above for information.)

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.

ADOA received a total of \$386,300 in its land trust fund, the Legislative, Executive, and Public Buildings Land Fund, in FY 2015.

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

The JLBC Staff projects that the Legislative, Executive, and Public Buildings Land Fund will have an FY 2017 ending balance of \$3,590,100. The fund will have estimated revenues of \$792,900 in FY 2018. The budget appropriates \$137,000 in one-time funding from the Legislative, Executive, and Public Building Land Fund in FY 2018 to the Arizona Supreme Court for adjustments to risk management premiums. It is the intent of the Legislature to find a different fund source for this allocation on an ongoing basis.

Arizona Department of Administration - Automation Projects Fund

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
INDIVIDUAL PROJECTS ^{1/2/3/4/}			
Department of Administration ^{5/}			
<i>Full Time Equivalent Positions</i>	75.0	15.0	15.0
AFIS Replacement	15,758,100	0 ^{6/}	0
e-Procurement System Replacement	0	9,000,000 ^{7/}	0
ASET Initiatives			
SDC/Network and Security Infrastructure	1,528,600	5,700,000	3,405,100
Security, Privacy, and Risk	4,604,100	3,248,400	7,303,500
Enterprise Architecture	367,200	1,050,000	0
Project Management	1,384,900	1,500,000	1,500,000
E-Government	362,400	1,300,000	500,000
IT Consolidation Assessment	0	800,000	0
HRIS Replacement Feasibility Study	0	0	500,000
ASET Initiatives Subtotal	8,247,200	13,598,400	13,208,600
Department of Administration Subtotal	24,005,300	22,598,400	13,208,600
Statewide e-Licensing System	0	0	595,500
Department of Child Safety ^{6/7/8/}			
CHILDS Replacement	308,500	4,581,600	11,100,000
Department of Corrections			
AIMS Replacement	3,292,800	8,000,000	0
Department of Economic Security ^{9/10/}			
Information Technology Security	0	1,294,700	0
Department of Education			
Education Learning and Accountability System	9,123,200	7,300,000	7,300,000
Department of Environmental Quality			
E-Licensing ^{11/}	2,827,900	0	3,200,000
Arizona Industrial Commission			
Claims Processing System	0	0	1,017,400
Arizona State Lottery Commission			
IT System Upgrade	0	0	3,497,400
Department of Public Safety			
Criminal Justice Information System	0	0	2,343,000
Microwave System Upgrade ^{12/}	0	0	2,500,000
Department of Public Safety Subtotal	0	0	4,843,000
Department of Revenue			
Enterprise Tax System Assessment ^{13/}	0	1,000,000	0
Tax Analysis Improvements	702,300	0	0
Information Technology Infrastructure	0	0	11,000,000
Tobacco Tax System	649,800	0	0
Department of Revenue Subtotal	1,352,100	1,000,000	11,000,000
TOTAL - ALL PROJECTS	40,909,800	44,774,700	55,761,900

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	40,909,800	47,774,700	55,761,900
SUBTOTAL - Other Appropriated Funds	40,909,800	47,774,700	55,761,900
SUBTOTAL - Appropriated Funds	40,909,800	47,774,700	55,761,900
TOTAL - ALL SOURCES	40,909,800	47,774,700	55,761,900

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

- 1/ General Fund monies are transferred into the Automation Projects Fund 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 Automation Projects Fund.
- 2/ Represents expenditures from the Automation Projects Fund. The FY 2016 Actual column includes expenditures from FY 2015 appropriations in FY 2016.
- 3/ 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. 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, a state agency may not reallocate monies between projects within the agency without review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ For the funding for projects at the Department of Administration, the state Department of Corrections, the Department of Child Safety, the Department of Economic Security and the Department of Education, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2017 are appropriated to the Department of Administration in FY 2018 for the same purposes specified in FY 2017. The Department of Administration shall report in its quarterly report to the Joint Legislative Budget Committee any FY 2018 expenditure of remaining balances from FY 2017 from the Automation Projects Fund. (General Appropriation Act footnote)
- 5/ 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 project's expenditures to date, deliverables, timeline for completion and current status. (General Appropriation Act footnote)
- 6/ The FY 2017 budget allocated \$3,100,000 from the AFIS Replacement Project to the Department of Administration for the e-Procurement Replacement Project. The FY 2018 budget further reallocates this funding to the Department of Child Safety for the CHILDS Replacement Project.
- 7/ The FY 2018 budget reduces the FY 2017 appropriation for the e-Procurement project by \$(3,000,000) and reallocates that funding (originally a General Fund appropriation) to the Department of Child Safety for the CHILDS Replacement Project.
- 8/ For the funding for the Department of Child Safety's Replacement of the Children's Information Library and Data Source System Project, any remaining balances on June 30, 2017 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 System project at the Department of Child Safety are appropriated to the Department of Administration in FY 2018 for the same purposes specified in FY 2015. The Department of Administration shall report in its quarterly report to the Joint Legislative Budget Committee any FY 2018 expenditure of remaining balances from FY 2015 from the Automation Projects Fund. (General Appropriation Act footnote)
- 9/ For the funding for the Department of Economic Security's Information Technology Security Project, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2016 for the Information Technology Security Project at the Department of Economic Security are appropriated to the Department of Administration in FY 2018 for the same purposes specified in FY 2016. The Department of Administration shall report in its quarterly report to the Joint Legislative Budget Committee any FY 2018 expenditure of remaining balances from FY 2016 from the Automation Projects Fund. (General Appropriation Act footnote)
- 10/ The amount appropriated for implementing projects that comply with state and federal security information technology standards at the Department of Economic Security by Laws 2015, Chapter 8, Section 126 and Laws 2016, Chapter 117, Section 129 may not be used for an assessment to replace any Information Technology system at the department. On or before December 2, 2017, the Department of Economic Security shall submit a report for review to the Joint Legislative Budget Committee on the status of the department's Information Technology security system. (General Appropriation Act footnote)
- 11/ For the funding for the Department of Environmental Quality's e-Licensing Projects, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2016 for the e-Licensing projects at the Department of Environmental Quality are appropriated to the Department of Administration in FY 2018 for the same purposes specified in FY 2016. The Department of Administration shall report in its quarterly report to the Joint Legislative Budget Committee any FY 2018 expenditure of remaining balances from FY 2016 from the Automation Projects Fund. (General Appropriation Act footnote)
- 12/ The \$2,500,000 appropriated for an update of the Microwave Backbone Statewide Communication System at the Department of Public Safety is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations through June 30, 2019. (General Appropriation Act footnote)
- 13/ For the funding for the Department of Revenue Enterprise Tax System Replacement Assessment, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2017 for the Enterprise Tax System Replacement Assessment revert to the Liability Setoff Program Revolving Fund established by A.R.S. § 42-1122. (General Appropriation Act footnote)

Background

The APF is administered by ADOA and consists of monies appropriated by the Legislature. Monies in the fund are 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 2018 General Appropriation Act (Laws 2017, Chapter 305) 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. § 18-104, 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. Statute also requires budget units to submit quarterly reports from the third-party consultant to ITAC and the JLBC on the project progress within 30 days after the end of the calendar quarter.

Department of Administration

AFIS Replacement

The budget includes no funding from the APF in FY 2018 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). The new AFIS system went "live" on July 1, 2015.

The FY 2017 budget allowed ADOA to use the FY 2015 and FY 2016 BREAZ appropriations through the end of FY 2017. ADOA reports it will spend the remaining \$4,815,300 in FY 2017 to implement additional functionality including travel management and Comprehensive Annual Financial Reporting (CAFR). In

addition to the remaining \$4,815,300, the FY 2017 budget required ADOA to use \$3,100,000 from the unused AFIS contingency to replace the e-Procurement system. The FY 2018 budget instead redirects the \$3,100,000 to replace the Children's Information Library and Data Source System (CHILDS) at the Department of Child Safety (DCS). *(Please see Department of Child Safety discussion below.)*

e-Procurement System Replacement

The budget includes no new funding from the APF in FY 2018 for the replacement of the state's e-Procurement system. This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(9,000,000) from the APF in FY 2018 to eliminate the one-time cost for the replacement of the state's e-Procurement system. This amount was funded from one-time charges to other appropriated and non-appropriated funds for transfer to APF.

The FY 2017 budget appropriated \$12,000,000 from the APF for e-Procurement, but the FY 2018 budget reduces that appropriation by \$(3,000,000) to \$9,000,000 and reallocates \$3,000,000 to the DCS for the replacement of the CHILDS system. *(Please see Department of Child Safety discussion below.)*

In addition, the FY 2017 budget required ADOA to use \$3,100,000 from the unused AFIS contingency to replace the e-Procurement system. The FY 2018 budget reallocates this funding to DCS to replace the CHILDS system. *(Please see Department of Child Safety discussion below.)*

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

ADOA reports that the current system lacks the ability to integrate with AFIS to record purchase order and invoice transactions. At the September 2016 JLBC meeting, the Committee favorably reviewed \$300,000 of the allocation.

While \$6,100,000 of the e-Procurement funding has been reallocated to CHILDS, the original \$9,000,000 remains available as these monies do not lapse until the end of FY 2018.

ASET Initiatives

The budget includes \$13,208,600 and 15 FTE Positions from the APF in FY 2018 for ADOA's Arizona Strategic Enterprise Technology (ASET) Office projects. The 15 FTE Positions will assist in managing all projects funded from the APF. These amounts fund the following adjustments:

ASET Alignment

The budget includes a decrease of \$(389,800) from the APF in FY 2018 to align expenditures with ongoing IT projects administered by the ASET Office in ADOA.

Of the FY 2018 total appropriation, \$12,708,600 will be financed by a transfer from the following funds:

- \$6,703,000 from the Automation Operations Fund
- \$500,000 from the State Information Technology Fund
- \$440,000 from the Risk Management Revolving Fund
- \$5,065,600 from the State Web Portal Fund

The remaining \$500,000 will come from the Automation Projects Fund balance.

The FY 2018 appropriation will fund projects continuing from FY 2017, pay for Personal Services and Employee Related Expenditures to manage and oversee IT projects statewide, as well as fund new projects for FY 2018. The \$13,208,600 consists of the following:

- \$3,405,100 for improving and maintaining network and security infrastructure. This project was funded at \$5,700,000 in FY 2017.
- \$7,303,500 to improve the security, privacy, and risk of the state's IT systems, including implementing firewalls and encrypting private and sensitive information. This project was funded at \$3,248,400 in FY 2017.
- \$0 for enterprise architecture. This project was funded at \$1,050,000 in FY 2017.
- \$1,500,000 for project management in the ASET office in ADOA. This includes Personal Services and Employee Related Expenditures to manage all projects funded through the APF, and to provide assistance to other state agencies for their IT projects. This amount is unchanged from FY 2017.
- \$500,000 to enhance E-government by improving state's Enterprise Platform, assisting agencies with cloud migration, and expanding agency website capabilities. This project was funded at \$1,300,000 in FY 2017.
- \$0 for an IT consolidation assessment. This project was funded at \$800,000 in FY 2017.

- \$500,000 for a new feasibility study to replace the Human Resources Information System (HRIS).

Statewide e-Licensing System

The budget includes \$595,500 from the APF in FY 2018 for a new statewide e-Licensing system. This amount consists of transfers from several funds. This amount funds the following adjustments:

Statewide e-Licensing Development

The budget includes an increase of \$595,500 from the APF in FY 2018 to fund the development costs of the system. *(Please see Table 2 for more detail on agencies and funds.)*

The new e-Licensing system will be used to modernize the process of reviewing applications and issuing licenses at many state "90/10" regulatory agencies.

Department of Child Safety

CHILDS Replacement

The budget includes \$11,100,000 from the APF in FY 2018 to replace the Children's Information Library and Data Source (CHILDS) system operated by the Department of Child Safety (DCS). The new Comprehensive Child Welfare Information System (CCWIS) is called Guardian. This amount is funded from the following sources:

- \$5,000,000 from the General Fund
- \$6,100,000 reallocated from the FY 2017 APF appropriation for the state's e-Procurement system replacement project.

Phase 2 Funding

The budget includes an increase of \$6,518,400, from \$4,581,600 in FY 2017 to \$11,100,000 in FY 2018, for Phase 2 funding, which will be used to link the operating system with modules for case management, provider management, and other system components.

The budget also appropriates any remaining FY 2015 and FY 2017 CHILDS project balances for use in FY 2018.

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 replacement system for CHILDS will be a "synthesized solution" in which a "system integrator" will be responsible for ensuring that each subsystem of Guardian (e.g. the mobile solution, safety and risk assessment tool, hosting environment, case management, financial management, data warehouse and data environment) functions properly together.

DCS currently estimates the cost to replace the system will be \$86,000,000 which includes the cost of state staff and overhead. DCS expects that project costs will qualify for a 50% federal match rate.

Including the \$11,100,000 in funding for CHILDS replacement in the FY 2018 budget, the Legislature has authorized a total of \$20,681,600 for the project. With the 50% federal IV-E match, DCS has been appropriated \$41,366,200 of the \$86,000,000 in estimated project costs through FY 2018.

DCS projects that total CHILDS yearly replacement spending will increase to \$35,456,000 in FY 2019 before declining to \$8,888,400 in FY 2020 when the project is expected to be complete. At the current 50% match rate for CHILDS replacement project costs, these projections would result in APF expenditures of \$17,728,000 in FY 2019 and \$4,444,200 in FY 2020.

Pursuant to A.R.S. § 18-104, DCS has contracted with a third-party vendor to provide additional oversight for the project.

Department of Corrections

AIMS Replacement

The budget includes no funding from the APF in FY 2018 for the replacement of the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC). This amount funds the following adjustments:

Project Completion

The budget includes a decrease of \$(8,000,000) from the APF in FY 2018 for the replacement of the Adult Inmate Management System (AIMS).

The FY 2017 budget included \$8,000,000 from the APF for the third and final year of a \$24,000,000 project to replace the AIMS at ADC. The FY 2018 budget appropriates any remaining FY 2017 AIMS project balances for use in FY 2018.

The AIMS system assists in the tracking, identification, population management, sentencing calculations, and the

appeals and grievances processes for inmates in the correctional system.

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, \$16,834,300 is allotted to pay the vendor. The remainder of the project costs include:

- \$3,555,300 for training costs as staff learn how to use the program and for dedicated staff for the implementation phase. These monies will cover the costs of training staff and staffing their positions as they train.
- \$1,307,400 for cost contingencies.
- \$1,041,800 for equipment.
- \$613,900 for the costs associated with the system interfacing with other state agencies, law enforcement entities, and the courts.
- \$647,200 for the cost of third-party consultant review for the AIMS project.

The department estimates an ongoing maintenance cost of \$1,600,000 annually. These costs can be covered from the savings from the previous costs of maintaining the legacy system.

Pursuant to A.R.S. § 18-104, ADC has contracted with a third-party vendor to provide additional oversight for the project.

Department of Economic Security

Information Technology Security

The budget includes no funding in FY 2018 from the APF for IT Security at the Department of Economic Security (DES). This amount funds the following adjustments:

Eliminate One-Time Funding

The budget includes a decrease of \$(1,294,700) from the APF in FY 2018 for IT security projects at DES.

The FY 2017 budget appropriated \$1,294,700 for IT security projects at DES. The FY 2017 APF appropriation is financed by a transfer from the DES Special Administration Fund. This was in addition to a FY 2016 appropriation of \$936,400, also financed by a transfer from the DES Special Administration Fund.

In April 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$609,700 for IT security enhancement projects. Of that total, \$487,800 is from the APF and \$121,900 is from Federal Funds. DES

utilized the funds to install Network Access Control (NAC) software to prevent unauthorized computers and wireless access points from accessing DES' network. In September 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$222,400 to complete the NAC project.

The department has not yet requested JLBC review for the remaining \$226,200 appropriated from the APF in FY 2016 or the \$1,294,700 appropriated from the APF in FY 2017.

The budget appropriates any remaining FY 2016 and FY 2017 DES project balances for the same purpose in FY 2018, and may not be used for an assessment to replace any IT system at the department. It requires the department to report to JLBC on the status of the department's IT security system.

Department of Education

Education Learning and Accountability System

The budget includes \$7,300,000 from the APF in FY 2018 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. This amount is unchanged from FY 2017.

The project will be funded by a transfer of \$7,300,000 from the General Fund in FY 2018.

The budget appropriates any remaining FY 2017 ELAS project balances for use in FY 2018.

(See the Department of Education - Education Learning and Accountability System section for more information.)

Department of Environmental Quality

E-Licensing

The budget includes \$3,200,000 from the APF in FY 2018 for E-Licensing. This amount funds the following adjustments:

Phase 4 Funding

The budget includes an increase of \$3,200,000 from the APF in FY 2018 for Phase 4 of the E-Licensing project, which will automate additional permitting and compliance processes that are currently conducted with paper.

The FY 2018 \$3,200,000 appropriation will be financed by a transfer from the Underground Storage Tank Revolving Fund to the APF.

The budget also appropriates any remaining FY 2017 DEQ project balances for use in FY 2018.

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. No additional funding was provided in FY 2017. The 50 automated processes will allow customers to conduct permitting, billing, payment, and data submissions online.

In April 2016, DEQ received favorable JLBC review of its FY 2016 expenditure plan for Phase 3 of the project. Before expending Phase 4 monies, DEQ is required to submit an expenditure plan to the JLBC for review.

Industrial Commission of Arizona

Claims Processing System

The budget includes \$1,017,400 from the APF in FY 2018 for a worker's compensation claims processing system upgrade at the Industrial Commission (ICA). This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$1,017,400 from the APF in FY 2018 for a claims processing system upgrade at ICA. The \$1,017,400 FY 2018 APF appropriation is financed by a transfer from the ICA Administration Fund. This amount partially funds a \$1,717,400 project cost, with the remaining \$700,000 funded by \$350,000 from the agency's FY 2017 base budget and \$350,000 from the agency's FY 2018 base budget.

This project will replace the existing claims system and permit electronic data interchange for insurance carriers and self-insured employers, automated document processing, and data analytics features for analysis of workplace injury risk factors.

The main components of the project costs include software and license fees; design and development of the system; and equipment hardware and software. The project is expected to be completed by the end of FY 2018.

Arizona State Lottery Commission

Information Technology System Replacement

The budget includes \$3,497,000 from the APF in FY 2018 to replace the IT system at the Arizona State Lottery Commission. This amount funds the following adjustments:

IT System Replacement

The budget includes an increase of \$3,497,000 from the APF in FY 2018 for a replacement IT system at the Lottery. This appropriation is financed by a transfer from the State Lottery Fund to the APF.

Monies will be used to replace the Lottery's outdated mainframe system with new hardware and a more modern Customer Relationship Management system. These changes will allow the Lottery to receive retailer applications and payments online rather than by paper.

Department of Public Safety

Arizona Criminal Justice Information System

The budget includes \$2,343,000 from the APF in FY 2018 for upgrades to the Arizona Criminal Justice Information System (ACJIS). This amount funds the following adjustments:

ACJIS Upgrades

The budget includes an increase of \$2,343,000 from the APF in FY 2018 for upgrades to ACJIS. This appropriation will be financed by transfers from:

	FY 2018
Concealed Weapons Permit Fund	\$1,000,000
Fingerprint Clearance Card Fund	1,343,000

ACJIS is the state's central repository for criminal history information including criminal history records, wanted persons, stolen vehicles, stolen property, and other information used in background checks. Currently, ACJIS utilizes an old coding language which is incompatible with many modern applications. These funds will allow DPS to begin the process of upgrading ACJIS applications to a modern coding language which will allow for increased access by state and local users and help prepare the program for an eventual migration from the mainframe computer to another data storage system. The upgrades to ACJIS are estimated to cost \$7,450,200 over 3 years. Funding for the second and third years of the upgrade have not yet been appropriated.

Microwave System Upgrades

The budget includes \$2,500,000 from the APF in FY 2018 for upgrades to the statewide Microwave Radio System. This amount funds the following adjustments:

Microwave Radio Upgrades

The budget includes an increase of \$2,500,000 from the APF in FY 2018 for upgrades to the Microwave Radio System. This appropriation will be financed by transfers from:

Concealed Weapons Permit Fund	1,500,000
PSEF	1,000,000

The statewide Microwave Radio System is a series of towers situated on mountain tops and divided into 3 loops that allow law enforcement and other state and local agencies to communicate with dispatch centers while in the field. In CY 2007, DPS began upgrading the statewide Microwave Radio System from analog to digital technology. Of the 3 loops, work on the southern loop was completed in FY 2011 and work on the western loop will be completed in FY 2018. This appropriation will help fund an estimated \$16.2 million in remaining upgrades to the northern loop.

Department of Revenue

Enterprise Tax System Replacement Assessment

The budget includes no funding from the APF in FY 2018 to assess the replacement of the Enterprise Tax System at the Department of Revenue (DOR). This amount funds the following adjustments:

Enterprise Tax System Replacement Assessment

The budget includes a decrease of \$(1,000,000) from the APF in FY 2018 for vendor services to assess the available options to replace DOR's existing primary tax system, referred to as the Business Reengineering and Integrated Tax System (BRITS). The \$1,000,000 APF appropriation was financed by a transfer from the Liability Setoff Program Revolving Fund.

DOR reported that core IT infrastructure is a greater need than BRITS replacement, and did not spend the \$1,000,000 appropriation. The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) reverted the appropriation back to the Liability Setoff Program Revolving Fund. This amount was included in the \$4,000,000 transfer from the Liability Setoff Program Revolving Fund to the APF for DOR's IT infrastructure

upgrades. (See Information Technology Infrastructure section below.)

Information Technology Infrastructure

The budget includes \$11,000,000 from the APF in FY 2018 for upgrades to DOR's IT infrastructure. This amount funds the following adjustments.

IT Infrastructure

The budget includes an increase of \$11,000,000 from the APF in FY 2018 for upgrades to DOR's IT infrastructure. This amount is funded from the following sources:

- \$4,000,000 from the DOR Administrative Fund
- \$4,000,000 from the Liability Setoff Program Revolving Fund
- \$3,000,000 from the existing APF fund balance.

These monies will be used to purchase hardware equipment to update servers that are at or will soon be at end of life status. The new equipment will allow DOR to manage an increased amounts of data as a result of TPT Simplification that requires DOR to be the primary recipient of all city, county and state sales tax filings. The equipment will also allow DOR to consolidate their 3 data centers into a co-located data center vendor.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the General Fund deposits into the APF are projected to decrease by \$(7.3) million in both FY 2019 and FY 2020 below FY 2018. The enacted FY 2018 3-year spending plan only assumes ongoing appropriations of \$5.0 million yearly for the DCS project beyond FY 2018. These estimates are based on:

CHILDS Replacement

The long-term estimates assume funding for CHILDS Replacement would remain unchanged in FY 2019 and FY 2020.

The combined FY 2018 appropriation, long-term estimates, and prior appropriated funding would result in APF expenditures on CHILDS Replacement of \$30,684,600 by the end of FY 2020 when the project is expected to be complete. DCS currently projects that the state costs will be \$44,500,000 by the end of FY 2020.

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 1* summarizes APF revenues from FY 2016 through FY 2018.

Because large IT projects often take multiple years to develop and implement, APF appropriations made in one fiscal year lapse at the end of the next fiscal year.

Table 1

Automation Projects Fund
(\$ in thousands)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Beginning Balance	45,827.5	29,712.1	7,859.9
Revenues			
<u>Administration, Department of</u>			
General Fund	2,383.0		
e-Procurement Automation Charges ^{1/}		9,000.0	^{2/3/}
Automation Operations Fund	5,700.0	7,420.6	6,703.0
State Web Portal Fund	3,775.0	5,650.0	5,065.6
Information Technology Fund		527.8	500.0
Risk Management Revolving Fund			440.0
<u>Statewide E-Licensing System</u>			
Various Funds (See Table 2)			595.5
<u>Corrections, Department of</u>			
Inmate Store Proceeds Fund		1,000.0	
Special Services Fund		4,000.0	
ARCOR Enterprise Services Revolving Fund		1,000.0	
State Charitable Land Fund		1,000.0	
Penitentiary Land Fund		1,000.0	
<u>Child Safety, Department of</u>			
General Fund - Direct Appropriation		4,581.6	5,000.0
General Fund - Redirected e-Procurement		3,000.0 ^{2/}	
Redirected AFIS Replacement			^{3/}
<u>Economic Security, Department of</u>			
Special Administration Fund	936.4	1,294.7	
<u>Education, Department of</u>			
General Fund	5,400.0	7,300.0	7,300.0
Education Learning and Accountability Fund	1,600.0		
<u>Environmental Quality, Department of</u>			
Emissions Inspection Fund	5,000.0		
Underground Storage Tank Revolving Fund			3,200.0
<u>Industrial Commission of Arizona</u>			
Administrative Fund			1,017.4
<u>State Lottery Commission</u>			
State Lottery Fund			3,497.4
<u>Department of Public Safety</u>			
Public Safety Equipment Fund			1,000.0
Concealed Weapons Permit Fund			2,500.0
Fingerprint Clearance Card Fund			1,343.0
<u>Revenue, Department of</u>			
Department of Revenue Administrative Fund			4,000.0
Liability Setoff Program Revolving Fund ^{4/}			4,000.0

Revenue Summary			
General Fund	7,783.0	14,881.6	12,300.0
Other Funds	<u>17,011.4</u>	<u>31,893.1</u>	<u>33,861.9</u>
Revenue Total	24,794.4	46,774.7	46,161.9
Total Funds Available w/ Beginning Balance	70,621.9	76,486.8	54,021.8
Total Expenditures (Current FY Appropriation)	12,183.0	44,774.7	55,761.9
Total Expenditures (Previous FY Appropriation)	<u>28,726.8</u>	<u>23,852.2</u>	<u>0.0</u>
Total Expenditures	40,909.8	68,626.9	55,761.9
Ending Balance	29,712.1	7,859.9	(1,740.1)
<ol style="list-style-type: none"> 1/ The FY 2017 amount consists of charges to eligible state agency funds for the replacement of the state's e-Procurement system. 2/ The FY 2018 budget redirects \$3,000,000 from the General Fund appropriated in FY 2017 to ADOA for the e-Procurement replacement project to the DCS CHILDS project. 3/ The FY 2016 ending balance includes \$3,100,000 of unspent AFIS Replacement Project contingency funds. The FY 2017 budget requires ADOA to use \$3,100,000 from the unused AFIS contingency to replace the e-Procurement system. The FY 2018 budget further redirects these monies to the DCS CHILDS project. 4/ The FY 2018 budget includes a footnote which would revert any unspent FY 2017 monies for the DOR Enterprise Tax System replacement assessment back to the Liability Setoff Program Revolving Fund. 			

Table 2

Statewide E-Licensing System

<u>Agency/Fund</u>	<u>FY 2018 Transfer</u>
<i>Acupuncture Board of Examiners</i> Acupuncture Board of Examiners Fund	\$ 45,900
<i>Board of Athletic Training</i> Athletic Training Fund	45,900
<i>Board of Barbers</i> Board of Barbers Fund	40,000
<i>Board of Funeral Directors' and Embalmers'</i> Board of Funeral Directors' and Embalmers' Fund	27,500
<i>Board of Occupational Therapy</i> Occupational Therapy Fund	45,900
<i>Board of Dispensing Opticians</i> Board of Dispensing Opticians Fund	27,500
<i>Board of Optometry</i> Board of Optometry Fund	45,900
<i>Board of Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers</i> Board of Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	27,500
<i>Board of Physical Therapy</i> Board of Physical Therapy Fund	45,900
<i>Board of Podiatry Examiners</i> Podiatry Fund	27,500
<i>Board for Private Postsecondary Education</i> Board for Private Postsecondary Education Fund	80,200
<i>Board of Psychologist Examiners</i> Board of Psychologist Examiners Fund	91,700
<i>Board of Respiratory Care Examiners</i> Board of Respiratory Care Examiners Fund	<u>44,100</u>
TOTAL	\$595,500

Office of Administrative Hearings

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	12.0	12.0	12.0
Personal Services	563,000	564,600	564,600
Employee Related Expenditures	199,000	205,100	215,500
Other Operating Expenditures	99,600	90,800	90,800
AGENCY TOTAL	861,600	860,500	870,900 ^{1/}
FUND SOURCES			
General Fund	861,600	860,500	870,900
SUBTOTAL - Appropriated Funds	861,600	860,500	870,900
Other Non-Appropriated Funds	709,700	749,500	749,500
TOTAL - ALL SOURCES	1,571,300	1,610,000	1,620,400

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

Operating Budget

The budget includes \$870,900 and 12 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$10,400 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Arizona Commission of African-American Affairs

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	69,700	83,100	83,100
Employee Related Expenditures	21,300	25,000	25,800
Professional and Outside Services	13,600	3,000	3,000
Travel - In State	300	0	0
Travel - Out of State	800	1,000	1,000
Other Operating Expenditures	15,700	12,900	12,900
AGENCY TOTAL	121,400	125,000	125,800 ^{1/}
FUND SOURCES			
General Fund	121,400	125,000	125,800
SUBTOTAL - Appropriated Funds	121,400	125,000	125,800
Other Non-Appropriated Funds	5,200	12,300	12,300
TOTAL - ALL SOURCES	126,600	137,300	138,100

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

Operating Budget

The budget includes \$125,800 and 3 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$800 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Arizona Department of Agriculture

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	162.9	196.3	204.3 ^{1/2/}
Personal Services	4,383,200	5,489,700	5,774,700
Employee Related Expenditures	1,892,800	2,399,200	2,659,700
Professional and Outside Services	49,200	306,000	306,000
Travel - In State	350,400	649,500	649,500
Travel - Out of State	16,100	36,600	36,600
Other Operating Expenditures	981,800	1,263,100	1,263,100
Equipment	66,500	14,600	75,600
OPERATING SUBTOTAL	7,740,000	10,158,700	10,765,200 ^{3/}
SPECIAL LINE ITEMS			
Agricultural Consulting and Training	128,500	128,500	128,500
Agricultural Employment Relations Board	23,300	23,300	23,300
Animal Damage Control	65,000	65,000	65,000
Division of Pest Management	0	0 ^{4/}	0
Nuclear Emergency Management Program	215,500	198,400	275,000 ^{5/6/}
Red Imported Fire Ant Control	23,200	23,200	23,200
AGENCY TOTAL	8,195,500	10,597,100	11,280,200 ^{7/}
FUND SOURCES			
General Fund	8,195,500	9,162,700	9,563,700
<u>Other Appropriated Funds</u>			
Air Quality Fund	0	1,434,400	1,441,500
Nuclear Emergency Management Fund	0	0	275,000
SUBTOTAL - Other Appropriated Funds	0	1,434,400	1,716,500
SUBTOTAL - Appropriated Funds	8,195,500	10,597,100	11,280,200
<u>Other Non-Appropriated Funds</u>			
Other Non-Appropriated Funds	11,883,500	13,188,600	13,188,600
Federal Funds	5,132,000	4,907,500	4,907,500
TOTAL - ALL SOURCES	25,211,000	28,693,200	29,376,300

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 and the responsibilities of the Office of Pest Management were transferred to the Arizona Department of Agriculture. The new duties of the Weights and Measures Service Division include the inspection, testing and licensing of commercial weighing and measuring devices. The new duties of the Division of Pest Management include licensing and regulating professional pest control companies and conducting examinations of the applicators of structural pesticides.

^{1/} Includes 7 GF FTE Positions appropriated by Laws 2017, Chapter 280 and 2.88 OF FTE Positions appropriated by Laws 2017, Chapter 43.

^{2/} Includes 2.88 OF FTE Positions funded from Special Line Items in FY 2018.

^{3/} Laws 2017, Chapter 280 appropriated \$368,000 and 7 GF FTE Positions from the General Fund for animal identification reporting.

^{4/} The FY 2017 Appropriations Report showed a \$1,695,500 appropriation in FY 2017 for the Division of Pest Management Special Line Item to correspond to the FY 2017 General Appropriation Act. Subsequent to the passage of the FY 2017 General Appropriation Act, Laws 2016, Chapter 221 made this amount non-appropriated. (Please see Other Issues section for more information.)

^{5/} Laws 2017, Chapter 43 appropriated \$275,012 and 2.88 FTE Positions from the Nuclear Emergency Management Fund in both FY 2018 and FY 2019 for the Nuclear Emergency Management Program.

Operating Budget

The budget includes \$10,765,200 and 201.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$9,323,700
Air Quality Fund	1,441,500

These amounts fund the following adjustments:

Animal Identification Reporting

Laws 2017, Chapter 280 includes an increase of \$367,976 and 7 FTE Positions from the General Fund in FY 2018. Of this amount, \$307,000 is ongoing and \$61,000 is one-time.

Of the \$367,976 amount, \$217,976 and 4 FTE Positions are appropriated to the Office of the State Veterinarian to offset the loss of federal funding currently provided through the Animal Disease Tractability (ADT) grant. ADA currently receives federal funding from the ADT grant which has conditional reporting requirements relating to animal identification. Chapter 280 prohibits the ADA Director from submitting any animal identification or tracking information to the federal government unless already required to do so by state law. This provision makes ADA ineligible to receive the ADT grant.

Of the \$217,976 amount appropriated to the Office of the State Veterinarian, \$80,000 will be used to replace monies from the ADT grant, \$77,000 will be used to partially fund 2 Assistant Veterinarian positions and the remaining \$61,000 will be used for equipment.

Chapter 280 also appropriates \$150,000 and 3 FTE Positions to the Plants Services Division to offset a loss of federal monies. ADA will no longer receive certain federal funding after FY 2017 due to the downsizing of federal agricultural projects.

Meat and Poultry Inspector

The budget includes an increase of \$85,000 from the General Fund in FY 2018 to fund an additional Meat and Poultry Inspector for the Animal Services Division. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

The Animal Services Division currently has 10 inspectors. The additional inspector will allow the division to perform inspections on newly opened slaughter facilities.

Statewide Adjustments

The budget includes an increase of \$153,500 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	\$146,400
Air Quality Fund	7,100

(Please see the Agency Detail and Allocations section.)

Agricultural Consulting and Training

The budget includes \$128,500 from the General Fund in FY 2018 for the Agricultural Consulting and Training line item. This amount is unchanged from FY 2017.

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

Agricultural Employment Relations Board

The budget includes \$23,300 from the General Fund in FY 2018 for the Agricultural Employment Relations Board line item. This amount is unchanged from FY 2017.

This line item funds accounting and budgeting support for the Agricultural Employment Relations Board. The board receives and investigates complaints and conducts farm labor union elections.

Animal Damage Control

The budget includes \$65,000 from the General Fund in FY 2018 for the Animal Damage Control line item. This amount is unchanged from FY 2017.

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.

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

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

Nuclear Emergency Management Program

The budget includes \$275,012 and 2.88 FTE Positions from the Nuclear Emergency Management Fund (NEMF) in FY 2018 for the Nuclear Emergency Management Program line item. These amounts fund the following adjustments:

Change Funding Source

The budget includes an increase of \$76,578 in FY 2018 for the Nuclear Emergency Management Program line item. This amount consists of:

General Fund	\$(198,434)
Nuclear Emergency Management Fund	275,012

Laws 2017, Chapter 43 appropriates \$275,012 and 2.88 FTE Positions from NEMF in FY 2018 and in FY 2019. As a result, these monies do not appear in the FY 2018 General Appropriation Act.

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 NEMF appropriation.

The Nuclear Emergency Management Program was previously funded by Laws 2015, Chapter 132, which appropriated \$198,434 and 1.88 FTE Positions from the General Fund in FY 2016 and FY 2017 for the program. Chapter 132 offset this General Fund appropriation with the NEMF fees, which were deposited into the General Fund.

Chapter 43 directs the fees to the NEMF rather than the General Fund. These monies are now appropriated directly from 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.

The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture received monies from Chapter 43. The NEMF appropriation amounts for FY 2017-FY 2019 are displayed in *Table 1*. (Please see the *Radiation Regulatory Agency and the Department of Emergency and Military Affairs narratives for more information.*)

Red Imported Fire Ant Control

The budget includes \$23,200 from the General Fund in FY 2018 for the Red Imported Fire Ant Control line item. This amount is unchanged from FY 2017.

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.

Agency	FY 2017		FY 2018		FY 2019	
	FTEs	Approp.	FTEs	Approp.	FTEs	Approp.
Emergency and Military Affairs ^{1/}	5.5	\$1,424,377	5.5	\$1,438,465	5.5	\$1,461,602
Radiation Regulatory Agency	5.5	789,663	5.5	789,663	5.5	789,663
Agriculture	1.88	198,434	2.88	275,012	2.88	275,012
Total	12.88	\$2,412,474	13.88	\$2,503,140	13.88	\$2,526,277

^{1/} The Emergency and Military Affairs appropriation includes the appropriations for the Maricopa County Department of Emergency Management and the City of Buckeye.

Other Issues

Additional Legislation

Fee Use Authority

The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) continues to give the Director, upon recommendation from the Agricultural Advisory Council, special fee authority in FY 2018, 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.

Division of Pest Management

Laws 2016, Chapter 221 transferred the Office of Pest Management to ADA creating the Division of Pest Management within ADA as of July 1, 2016.

Chapter 221 transferred all authority, powers, duties and responsibilities previously granted to the Office of Pest Management to the Division of Pest Management and repealed statute establishing the Office of Pest Management as a 90/10 agency.

Chapter 221 also converted the Pest Management Fund into the Pest Management Trust Fund, establishing the Trust Fund as a non-appropriated fund.

The *FY 2017 Appropriations Report* displayed the Pest Management Fund as appropriated because the appropriation provided in Chapter 117 occurred before the statutory changes made by Chapter 221. The statutory changes included in Chapter 221 converted the Pest Management Trust Fund to a non-appropriated fund.

The *FY 2018 Appropriations Report* displays this fund as non-appropriated starting in FY 2017, thus lowering the overall appropriation, but not the total level of spending for the agency.

Division of Weights and Measures

Laws 2015, Chapter 244 established 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 were transferred to the Weights and Measure Services Division within ADA, except that:

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

Arizona Health Care Cost Containment System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,214.3	2,326.3	2,326.3 ^{1/}
Personal Services	34,936,100	48,482,200	48,687,200
Employee Related Expenditures	14,910,400	20,014,400	21,126,700
Professional and Outside Services	5,375,700	9,789,400	9,789,400
Travel - In State	64,800	79,700	79,700
Travel - Out of State	22,100	35,600	35,600
Other Operating Expenditures	21,589,600	16,869,200	16,997,900
Equipment	1,284,900	130,200	143,800
OPERATING SUBTOTAL	78,183,600	95,400,700	96,860,300
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	72,084,100	88,874,500	88,874,500 ^{2/}
Proposition 204 - AHCCCS Administration	11,199,900	12,639,000	12,908,400 ^{3/}
Proposition 204 - DES Eligibility	38,269,500	44,358,700	44,358,700 ^{3/}
Proposition 206 - Network Adequacy Report	0	0	200,000 ^{4/}
Medical Services			
Traditional Medicaid Services	3,615,896,900	3,905,669,100	4,037,329,200 ^{5/6/}
Proposition 204 Services	2,474,278,400	2,819,313,400	2,911,986,200 ^{3/}
Adult Expansion Services	403,212,000	463,710,800	484,329,900
Children's Rehabilitative Services	250,423,100	268,909,600	270,673,900
KidsCare Services	2,050,800	61,180,800	111,961,100
ALTCS Services	1,300,784,400	1,439,188,100	1,544,082,800 ^{7/8/9/}
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	965,944,700	1,015,591,300 ^{10/11/}
Medicaid Behavioral Health - Proposition 204 Services	0	616,158,200	649,608,300 ^{3/10/11/}
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	211,266,400	217,719,100 ^{10/11/}
Medicaid Behavioral Health - Adult Expansion Services	0	73,735,600	77,403,100 ^{10/11/}
Non-Medicaid Seriously Mentally Ill Services	0	78,846,900	78,846,900 ^{10/12/}
Supported Housing	0	5,324,800	5,324,800 ^{10/}
Crisis Services	0	16,391,300	16,391,300 ^{10/}
Hospital Payments			
Disproportionate Share Payments	5,087,100	5,087,100	5,087,100 ^{13/}
DSH Payments - Voluntary Match	38,855,100	19,896,000	0 ^{14/15/}
Rural Hospitals	22,348,600	22,650,000	22,650,000
Graduate Medical Education	163,725,900	296,288,000	265,729,800 ^{15/16/}
Safety Net Care Pool	118,584,600	137,000,000	75,000,000 ^{15/17/}
AGENCY TOTAL	8,594,984,000	11,647,833,700	12,032,916,700 ^{18/-22/}
FUND SOURCES			
General Fund	1,145,016,100	1,750,941,400	1,775,264,100
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	2,612,200	3,563,300	3,655,300
Children's Health Insurance Program Fund	2,424,100	66,900,700	117,688,200
Prescription Drug Rebate Fund - State	105,718,100	113,778,900	145,691,200
Substance Abuse Services Fund	0	2,250,200	2,250,200
TPTF Emergency Health Services Account	18,162,200	18,747,200	19,244,300
TTHCF Medically Needy Account	34,498,500	72,998,200	72,998,200
SUBTOTAL - Other Appropriated Funds	163,415,100	278,238,500	361,527,400
SUBTOTAL - Appropriated Funds	1,308,431,200	2,029,179,900	2,136,791,500

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
Expenditure Authority Funds			
County Funds	299,153,500	299,667,700	314,132,800
Federal Medicaid Authority	6,140,839,600	8,304,254,300	8,574,072,200
Hospital Assessment Fund	224,197,600	252,329,100	286,512,600
Nursing Facility Provider Assessment Fund	18,031,200	23,746,800	32,989,400
Political Subdivision Funds	106,506,900	140,887,600	103,147,500
Prescription Drug Rebate Fund - In Lieu of Federal Funds	360,776,400	460,052,600	465,663,000
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	98,906,900	100,000,000	79,000,000
TPTF Proposition 204 Protection Account	38,140,700	37,521,000	40,413,000
SUBTOTAL - Expenditure Authority Funds	7,286,552,800	9,618,653,800	9,896,125,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,594,984,000	11,647,833,700	12,032,916,700
Other Non-Appropriated Funds	31,764,200	92,888,500	92,888,500
Federal Funds	66,182,800	155,248,600	156,625,300
TOTAL - ALL SOURCES	8,692,931,000	11,895,970,800	12,282,430,500

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

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2018.
- 2/ The amounts appropriated for the DES Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The state General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 3/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, Proposition 204 Services and Medicaid Behavioral Health - Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 4/ On or before February 1, 2018, the AHCCCS Administration shall submit a report to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Director of the Governor's Office of Strategic Planning and Budgeting and the Director of the Joint Legislative Budget Committee on the impact of provider cost increases resulting from the enactment of Proposition 206, election of November 8, 2016, on the adequacy of the provider network for enrollees in the Arizona Long Term Care System established by A.R.S. § 36-2932. The analysis of the provider network adequacy shall be delineated by geographic service area. The report shall include recommendations on how this state may address any deficiencies in provider network adequacy identified in the analysis. (General Appropriation Act footnote)
- 5/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2018 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 6/ The AHCCCS Administration shall transfer \$436,000 from the Traditional Medicaid Services line item for FY 2018 to the Department of Revenue for enforcement costs associated with the March 13, 2013 Master Settlement Agreement with tobacco companies. (General Appropriation Act footnote)
- 7/ Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long term care for persons with developmental disabilities do not count against the long term care expenditure authority above. (General Appropriation Act footnote)
- 8/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2018 nonfederal costs of providing long term care system services is \$264,673,200. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 9/ Any supplemental payments received in excess of \$108,974,800 for nursing facilities that serve Arizona Long Term Care System Medicaid patients in FY 2018, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 10/ On or before December 31, 2017, and June 30, 2018, the AHCCCS Administration shall report to the Joint Legislative Budget Committee on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include at a minimum the Administration's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County for supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The Administration shall also report by fund source the amounts it plans to use to pay for expanded services. (General Appropriation Act footnote)
- 11/ It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities be 9% of the overall capitation rate. (General Appropriation Act footnote)

Summary

AHCCCS' FY 2018 General Fund spending would increase by \$24,322,700, or a 1.4% increase from FY 2017. This amount includes:

- \$38,169,800 in formula adjustments.
- \$(24,130,900) in savings for a health insurer fee moratorium.
- \$9,780,700 in policy changes.
- \$503,100 in statewide adjustments.

AHCCCS' FY 2018 Hospital Assessment spending increases by \$34,183,500, or a 13.5% increase. This increase is primarily due to a decrease in tobacco litigation settlement funding available to offset Hospital Assessment spending and a decrease in the federal match for the Adult Expansion population.

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$110,847,500 in FY 2019 above FY 2018 and by \$160,163,600 in FY 2020 above FY 2019. (*See Other Issues section for more information.*)

Below is an overview of FY 2018 formula adjustments, the health insurer fee moratorium, policy changes, and statewide adjustments. *Table 1* summarizes these changes.

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, a decrease in tobacco tax collections, and an increase in drug rebate collections. The budget includes a net increase of \$38,169,800 in General Fund appropriations in FY 2018 for these adjustments.

- 12/ The AHCCCS Administration shall transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill Services line item for FY 2018 to the Department of Health Services for the costs of prescription medications for persons with a serious mental illness at the Arizona State Hospital. (General Appropriation Act footnote)
- 13/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2018 made pursuant to A.R.S. § 36-2903.010 includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 14/ Any monies received for Disproportionate Share Hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, in FY 2018 by the AHCCCS Administration in excess of \$0 are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 15/ The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2018 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match and Safety Net Care Pool line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 16/ Any monies for Graduate Medical Education received in FY 2018, including any federal matching monies, by the AHCCCS Administration in excess of \$265,729,800 are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 17/ Any monies received in excess of \$75,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2018, including any federal matching monies, are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 18/ The nonappropriated portion of the Prescription Drug Rebate Fund established by A.R.S. § 36-2930 is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)
- 19/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 20/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2018 on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 21/ On or before January 5, 2018, 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, 2017. On June 30, 2018, the Administration shall report the same information for all of FY 2018. (General Appropriation Act footnote)
- 22/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Table 1

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

Formula Adjustments

FY 2018 Caseload Growth	\$ 54
FY 2018 3.0% Capitation Rate Increase	47
FY 2018 Federal Match Rate Increase	(33)
Prescription Drug Rebate Fund Increase	<u>(30)</u>
<i>Subtotal</i>	\$ 38

Health Insurer Fee Moratorium

<i>Subtotal</i>	\$ (24)
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Policy Changes

Proposition 206 Rate Increase	10
Adult Outpatient Occupational Therapy Services ^{1/}	0
Adult Emergency Dental Restoration ^{2/}	0
Prescription Drug Review Initiative ^{2/}	<u>0</u>
<i>Subtotal</i>	\$ 10

Statewide Adjustments

<i>Subtotal</i>	\$ 1
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Total Spending Change ^{3/} **\$ 24**

^{1/} The budget includes a \$130,000 increase from the General Fund for state costs of adult outpatient occupational therapy services. (See the *Adult Outpatient Occupational Therapy Services* section for more information.)

^{2/} State costs of this policy change are funded with non-General Fund sources. (See the *Adult Emergency Dental Restoration* and *Prescription Drug Review Initiative* sections for more information.)

^{3/} Numbers do not add to total due to rounding.

FY 2018 Caseload Growth

Formula adjustments include 1.5% caseload growth for most AHCCCS populations. Adjustments also include growth of 2.0% for the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled population and 5.0% for seriously mentally ill members receiving integrated services. FY 2018 caseload changes are expected to result in a General Fund increase of \$54,433,200 in FY 2018. Caseloads, including expansions and the childless adult restoration, are shown in Table 2.

FY 2018 3.0% Capitation Rate Increase

In comparison to caseload growth rates which vary by population, capitation rate adjustments are assumed to be 3.0% above FY 2017 across all programs. The budget assumes the 3.0% capitation rate increase will result in an increase of \$46,796,500 from the General Fund in FY 2018.

FY 2018 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 2018, the FMAP rates will adjust as follows:

Table 2

JLBC Forecasted Member Months ^{3/}

<u>Population ^{2/3/}</u>	<u>June 2016</u>	<u>June 2017</u>	<u>June 2018</u>	<u>'17-'18% Change</u>
Traditional	1,054,521	1,080,783	1,097,674	1.6%
Prop 204 Childless Adults	308,994	318,264	323,038	1.5
Other Proposition 204	182,877	187,077	190,077	1.6
Adult Expansion ^{4/}	83,337	85,837	87,125	1.5
KidsCare ^{5/}	595	33,350	33,850	1.5
ALTCS - Elderly & Physically Disabled ^{6/7/}	28,978	29,558	30,149	2.0
Emergency Services	<u>115,834</u>	<u>122,938</u>	<u>124,840</u>	<u>1.5</u>
Total Member Months	1,775,136	1,857,807	1,886,753	1.6%

^{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. The Comprehensive Medical and Dental Program is included in Traditional.

^{3/} The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items.

^{4/} Parents and Childless Adults 100%-133% of the federal poverty level (FPL).

^{5/} Enrollment in the KidsCare program resumed in September 2016. (See the *KidsCare* line item for more information.)

^{6/} The ALTCS program funded in AHCCCS.

^{7/} In addition, approximately 30,500 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of May 1, 2017.

- Traditional Medicaid rate will increase to 69.73% (0.57% increase).
- Proposition 204 Childless Adult rate will increase to 90.74% (0.46% increase).
- KidsCare and Child Expansion rates will remain at 100%.
- Adult Expansion rate will decrease to 94.5% (3.0% decrease).

The formula adjustments include a decrease of \$(33,059,900) in General Fund spending to reflect savings from the regular federal rate increase.

Prescription Drug Rebate Fund Increase

The budget includes an increase of \$30,000,000 from the state portion of the Prescription Drug Rebate Fund (PDRF - State) and a corresponding \$(30,000,000) decrease from the General Fund in FY 2018 for higher-than-expected rebate collections. Federal health care legislation requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since FY 2011.

FY 2017 Supplemental

The budget includes a \$129,680,600 supplemental increase in FY 2017, including \$63,225,800 in Other Funds and \$66,454,800 in Expenditure Authority Funds. The \$63,225,800 increase in Other Funds is associated with costs of restoring enrollment in the KidsCare program. (See the *KidsCare Services* line item for more information.)

The Expenditure Authority increase aligns budgeted funding with current availability of federal monies and funds higher-than-budgeted capitation rate increases for the Proposition 204 Childless Adult and Adult Expansion populations in FY 2017.

Although formula and Proposition 206-related adjustments are expected to be associated with \$12.5 million in higher-than-budgeted General Fund expenditures, the budget does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of General Fund need without requiring a supplemental. (See the *Other Issues and Proposition 206 Rate Increase* sections for more information.)

Health Insurer Fee Moratorium

The Federal Affordable Care Act (ACA) placed an \$8 billion nationwide annual fee on the health insurance industry in 2014 that 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. AHCCCS reimburses insurers for fees paid as a result of covering Medicaid enrollees.

The Federal Consolidated Appropriations Act of 2016 places a 1-year moratorium on the fee in calendar year (CY) 2017. As a result, AHCCCS will not provide reimbursement to Medicaid health insurers for the fee in FY 2018. The budget includes a decrease of \$(24,130,900) from the General Fund in FY 2018 to reduce reimbursement. The federal government will resume levying the fee in CY 2018, which AHCCCS would reimburse in FY 2019.

Policy Changes

The budget includes \$9,780,700 from the General Fund in FY 2018 for 2 policy issue changes, including provider rate increases resulting from Proposition 206 and coverage of outpatient occupational therapy services for adults. The budget additionally funds restoration of the adult emergency dental benefit and a prescription drug review initiative with other state fund sources.

Proposition 206 Rate Increase

The budget includes an increase of \$9,650,700 from the General Fund and \$57,367,200 in Total Funds in FY 2018 for ALTCS Elderly and Physically Disabled provider rate increases associated with minimum wage and sick leave provisions of Proposition 206. In January 2017, AHCCCS implemented increases of 7% in select home and

community-based services rates and a 3.5% increase in nursing facility rates to address the increase in the minimum wage to \$10.00. The budget includes funding to annualize these increases for a full year, as well as funding for adjustments for the implementation of paid sick leave and an increase in the minimum wage to \$10.50 in FY 2018.

An FY 2018 General Appropriation Act footnote also requires AHCCCS to submit a report on or before February 1, 2018 evaluating the impact of Proposition 206 on the adequacy of the provider network for ALTCS, including the impact on the Developmental Disabilities program operated by the Department of Economic Security. The report shall include recommendations on how to address any deficiencies in network adequacy identified by the analysis. The budget includes \$200,000 from the PDRF - State in FY 2018 for AHCCCS to conduct the study.

Adult Outpatient Occupational Therapy Services

Section 4 of the FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309) establishes occupational therapy services as covered services for adults in outpatient settings. Occupational therapy is intended to restore or improve independent functioning lost through illness or injury. The budget includes an increase of \$130,000 from the General Fund and \$1,255,100 in Total Funds in FY 2018 to fund these outpatient services. Enrollees age 20 and under are currently eligible to receive outpatient occupational therapy services through Medicaid's mandatory Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) benefit. All child and adult enrollees are currently eligible for occupational therapy provided in inpatient settings.

Adult Emergency Dental Restoration

Section 4 of the FY 2018 Health BRB also restores coverage of adult emergency dental services, such as tooth extractions and root canals, with a per member spending cap of \$1,000 a year. The budget includes an increase of \$1,490,500 from PDRF - State and \$14,531,400 in Total Funds in FY 2018 for these services. Prior to elimination in the FY 2011 budget, emergency dental services were an uncapped covered service for adults. Enrollees age 20 and under are currently eligible for emergency dental services through Medicaid's mandatory EPSDT benefit.

Prescription Drug Review Initiative

The budget includes \$220,900 from PDRF - State and \$441,800 in Total Funds in FY 2018 for monitoring prescription drug use. This amount funds 5 FTE Positions that use data analytics, case reviews, and investigations for the purpose of reducing improper use or prescribing of opioid drugs by AHCCCS participants. In lieu of increasing

the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Statewide Adjustments

The budget includes an increase of \$503,100 from the General Fund and \$1,287,200 in Total Funds in FY 2018 for statewide adjustments. These amounts fund increased employer contributions to the state Health Insurance Trust Fund (HITF) and increased Arizona Financial Information System (AFIS) charges. *(Please see the Agency Detail and Allocations section.)*

Operating Budget

The budget includes \$96,860,300 and 1,013.2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$30,070,900
Children's Health Insurance Program (CHIP) Fund	5,727,100
Prescription Drug Rebate Fund (PDRF) - State	660,900
Federal Medicaid Authority (FMA)	60,401,400

These amounts fund the following adjustments:

Prescription Drug Review Staff

The budget includes an increase of \$320,200 in FY 2018 for additional staff to monitor improper use of prescription drugs. This amount consists of:

PDRF - State	160,100
Federal Medicaid Authority	160,100

In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff. *(See the Prescription Drug Review Initiative section for additional information.)*

Statewide Adjustments

The budget includes an increase of \$1,139,400 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	453,100
CHIP Fund	7,200
PDRF - State	800
Federal Medicaid Authority	678,300

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$88,874,500 and 885 FTE Positions in FY 2018 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	25,491,200
Federal Medicaid Authority	63,383,300

These amounts are unchanged from FY 2017.

The budget increases Federal Medicaid Authority to the DES Eligibility line in FY 2017 to realign budgeted amounts with currently available funding. *(See the Other Issues section for more information.)*

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

Proposition 204 - AHCCCS Administration

The budget includes \$12,908,400 and 128 FTE Positions in FY 2018 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,123,800
PDRF - State	60,900
Federal Medicaid Authority	8,723,700

These amounts fund the following adjustments:

Prescription Drug Review Staff

The budget includes an increase of \$121,600 in FY 2018 for additional staff to monitor improper use of prescription drugs. This amount consists of:

PDRF - State	60,800
Federal Medicaid Authority	60,800

In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff. *(See the Prescription Drug Review Initiative section for additional information.)*

Statewide Adjustments

The budget includes an increase of \$147,800 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	50,000
PDRF - State	100
Federal Medicaid Authority	97,700

Proposition 204 expanded AHCCCS eligibility. The FY 2017 budget included separate line items for acute care and behavioral health administration costs of the Proposition 204 program. The FY 2018 budget combines that funding under the Proposition 204 - AHCCCS Administration line and shows the combined funding for FY 2016 and FY 2017.

Proposition 204 - DES Eligibility

The budget includes \$44,358,700 and 300.1 FTE Positions in FY 2018 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,066,900
Budget Neutrality Compliance Fund (BNCF)	3,655,300
Federal Medicaid Authority	23,636,500

These amounts fund the following adjustments:

Statutory Adjustments

The budget includes a decrease of \$(92,000) from the General Fund and a corresponding increase of \$92,000 from the BNCF in FY 2018 to reflect an increase of county contributions in FY 2018 as required by A.R.S. § 11-292. (See Table 7 for contributions by county.)

The budget increases Federal Medicaid Authority to the Proposition 204 - DES Eligibility line in FY 2017 to realign budgeted amounts with currently available funding levels. (See Other Issues section for more information.)

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.

Proposition 206 - Network Adequacy Report

The budget includes \$200,000 from PDRF - State in FY 2018 for costs of a report on the effects of Proposition 206 on provider network adequacy.

This amount funds the following adjustments:

One-Time Reporting Costs

The budget includes an increase of \$200,000 from PDRF - State in FY 2018 for one-time costs of conducting a study on the effects of Proposition 206 on network adequacy of long term care provider networks. (See the Proposition 206 Rate Increase section for more information.)

Background – An FY 2018 General Appropriation Act footnote requires AHCCCS to submit a report on or before February 1, 2018 evaluating the impact of Proposition 206 on the adequacy of the provider network for ALTCS, including the impact on the Developmental Disabilities program operated by the Department of Economic Security. The report shall include recommendations on how to address any deficiencies in network adequacy identified by the analysis.

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children’s Rehabilitative Services program.

Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2018. A description of program components can be found in the Other Issues section.

Traditional Medicaid Services

The budget includes \$4,037,329,200 in FY 2018 for Traditional Medicaid Services. This amount consists of:

General Fund	873,023,000
County Funds	49,459,600
PDRF - State	137,191,000
TTHCF - Medically Needy Account	37,432,400
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	429,241,000
Federal Medicaid Authority	2,510,787,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$174,659,100 in FY 2018 for formula adjustments. This amount consists of:

General Fund	34,729,500
County Funds	(228,100)
Federal Medicaid Authority	140,157,700

These adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.
- \$(228,100) decrease in the Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.

PDRF Increase

The budget includes a \$30,000,000 increase from PDRF - State for higher-than-expected rebate collections and a corresponding decrease of \$(30,000,000) from the General Fund in FY 2018. The budget also includes a \$1,984,900 increase from the PDRF - In Lieu of Federal Funds for higher-than-expected rebate collections and a corresponding decrease of \$(1,984,900) from Federal Medicaid Authority in FY 2018.

Adult Occupational Therapy

The budget includes an increase of \$431,800 in FY 2018 for outpatient occupational therapy services for adult enrollees. This amount consists of:

General Fund	130,000
Federal Medicaid Authority	301,800

(See the Adult Outpatient Occupational Therapy Services section for additional information.)

Adult Emergency Dental Restoration

The budget includes an increase of \$4,494,900 in FY 2018 to restore emergency dental services for adult enrollees. This amount consists of:

PDRF - State	1,353,400
PDRF - In Lieu of Federal Funds	3,141,500

(See the Adult Emergency Dental Restoration section for additional information.)

Health Insurer Fee Moratorium

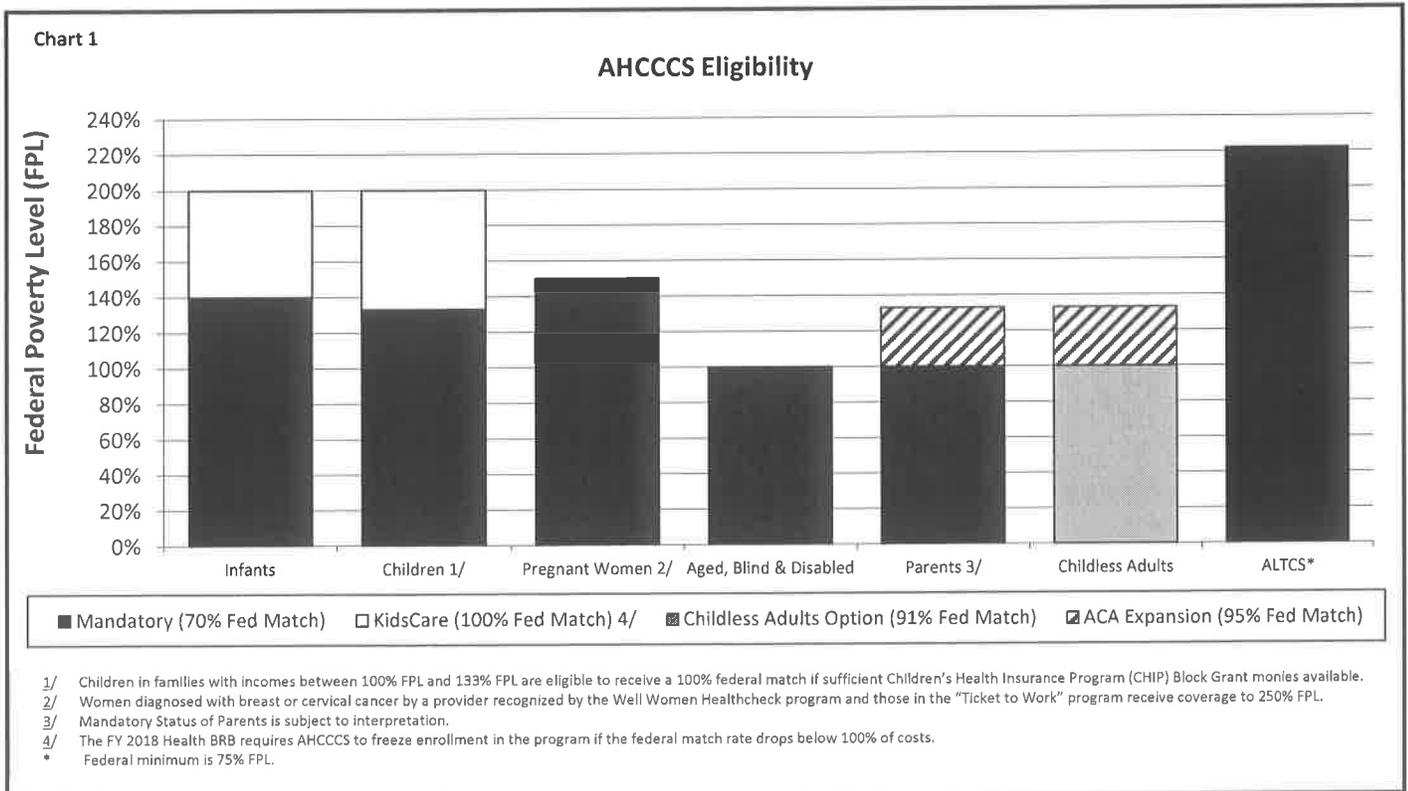
The budget includes a decrease of \$(47,925,700) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

General Fund	(14,895,300)
Federal Medicaid Authority	(33,030,400)

(See the Health Insurer Fee Moratorium section for additional information.)

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

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



Proposition 204 Services

The budget includes \$2,911,986,200 in FY 2018 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	260,723,900
Tobacco Litigation Settlement Fund	79,000,000
TPTF - Proposition 204 Protection Account	40,413,000
TPTF - Emergency Health Services Account	19,244,300
Federal Medicaid Authority	2,512,605,000

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$101,927,700 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	(4,655,000)
TPTF - Proposition 204 Protection Account	2,892,000
TPTF - Emergency Health Services Account	497,100
Federal Medicaid Authority	103,193,600

These adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate for the non-childless adult population from 69.16% to 69.73%.
- An increase in the federal match rate for childless adults from 90.28% to 90.74%.
- 3.0% capitation rate increase.
- A \$2,892,000 increase from the TPTF - Proposition 204 Protection Account due to higher-than-expected tobacco tax revenues and a corresponding \$(2,892,000) Hospital Assessment Fund decrease.
- \$497,100 increase from the Emergency Health Services Account due to higher-than-expected tobacco tax revenues and a corresponding \$(497,100) Hospital Assessment Fund decrease.

Settlement Funding Reduction

The budget includes a decrease of \$(21,000,000) from the Tobacco Litigation Settlement Fund and a corresponding increase of \$21,000,000 in the Hospital Assessment Fund in FY 2018. As recognition of Arizona's lead role in negotiating a Master Settlement Agreement with tobacco companies in 1998, the state was entitled to additional settlement payments above regular annual amounts. Under the agreement, the additional payments will end after FY 2017.

Adult Occupational Therapy

The budget includes an increase of \$823,300 in FY 2018 for outpatient occupational therapy services for adult enrollees. This amount consists of:

Hospital Assessment	125,500
Federal Medicaid Authority	697,800

(See the *Adult Outpatient Occupational Therapy Services* section for additional information.)

Adult Emergency Dental Restoration

The budget includes an increase of \$8,156,000 in FY 2018 to restore emergency dental services for adult enrollees. This amount consists of:

Hospital Assessment	1,544,300
Federal Medicaid Authority	6,611,700

(See the *Adult Emergency Dental Restoration* section for additional information.)

Health Insurer Fee Moratorium

The budget includes a decrease of \$(18,234,200) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

Hospital Assessment Fund	(3,358,500)
Federal Medicaid Authority	(14,875,700)

(See the *Health Insurer Fee Moratorium* section for additional information.)

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

Adult Expansion Services

The budget includes \$484,329,900 in FY 2018 for Adult Expansion Services. This amount consists of:

Hospital Assessment Fund	25,788,700
Federal Medicaid Authority	458,541,200

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$23,069,500 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	19,446,300
Federal Medicaid Authority	3,623,200

These adjustments include:

- 1.5% enrollment growth.
- A decrease in the federal match rate from 97.5% to 94.5%.

- 3.0% capitation rate increase.

Adult Emergency Dental Restoration

The budget includes an increase of \$1,427,600 in FY 2018 to restore emergency dental services for adult enrollees. This amount consists of:

Hospital Assessment	80,900
Federal Medicaid Authority	1,346,700

(See the Adult Emergency Dental Restoration section for additional information.)

Health Insurer Fee Moratorium

The budget includes a decrease of \$(3,878,000) of Federal Medicaid Authority in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. *(See the Health Insurer Fee Moratorium 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 paid 100% of the cost of this population in calendar years (CY) 2014 to 2016. The federal share will gradually decline to 90% by CY 2020.

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

Children’s Rehabilitative Services

The budget includes \$270,673,900 in FY 2018 for Children’s Rehabilitative Services (CRS). This amount consists of:

General Fund	81,939,800
Federal Medicaid Authority	188,734,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$6,787,400 in FY 2018 for formula adjustments. This amount consists of:

General Fund	(1,436,900)
Federal Medicaid Authority	8,224,300

These adjustments include:

- 1.5% enrollment growth.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium

The budget includes a decrease of \$(5,023,100) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

General Fund	(1,561,200)
Federal Medicaid Authority	(3,461,900)

(See the Health Insurer Fee Moratorium section for additional information.)

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

KidsCare Services

The budget includes \$111,961,100 from the Children’s Health Insurance Program (CHIP) Fund in FY 2018 for KidsCare Services. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$50,823,500 from the CHIP Fund in FY 2018 for the annualization and phase-in of this population. The adjustment includes a projected increase in enrollment, from 21,050 in June 2017 to 33,850 by June 2018, and 3.0% capitation rate growth in FY 2018.

Health Insurer Fee Moratorium

The budget includes a decrease of \$(43,200) from the CHIP Fund in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. *(See the Health Insurer Fee Moratorium section for additional information.)*

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. Families of KidsCare members are charged a monthly premium of \$10 to \$70, depending on level of family income and number of children enrolled in the program.

An enrollment freeze was instituted for the program on January 1, 2010. Laws 2016, Chapter 112 required AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the

program. AHCCCS resumed enrollment in the program on September 1, 2016.

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.

Laws 2016, Chapter 112 required AHCCCS to stop processing all KidsCare applications and notify contractors and members that the program will be terminated if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. Sections 7 and 8 of the FY 2018 Health BRB replace the requirement to terminate the program with a requirement to freeze enrollment. The BRB additionally clarifies that AHCCCS will freeze enrollment if the program's federal match rate drops below 100% of costs. *(See Long-Term Budget Impacts section for additional information.)*

ALTCS Services

The budget includes \$1,544,082,800 in FY 2018 for ALTCS services. This amount consists of:

General Fund	185,064,700
County Funds	264,673,200
PDRF - State	7,578,400
PDRF - In Lieu of Federal Funds	36,422,000
Nursing Facility Provider Assessment Fund	32,989,400
Federal Medicaid Authority	1,017,355,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$17,824,600 in FY 2018 for formula adjustments. This amount consists of:

General Fund	7,753,800
County Funds	7,122,200
Federal Medicaid Authority	2,948,600

These adjustments include:

- 2.0% enrollment growth.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

PDRF Increase

The budget includes a \$168,200 increase from PDRF - In Lieu of Federal Funds and a corresponding decrease of

\$(168,200) from Federal Medicaid Authority in FY 2018 for higher-than-expected rebate collections.

Proposition 206 Rate Increase

The budget includes an increase of \$57,367,200 in FY 2018 to fund provider rate increases for minimum wage and sick leave provisions of Proposition 206. This amount consists of:

General Fund	9,650,700
County Funds	7,715,800
Federal Medicaid Authority	40,000,700

(See the Proposition 206 Rate Increase section for additional information.)

Adult Emergency Dental Restoration

The budget includes an increase of \$452,900 in FY 2018 to fund emergency dental services for adults enrolled in ALTCS. This amount consists of:

PDRF - State	137,100
PDRF - In Lieu of Federal Funds	315,800

Section 4 of the FY 2018 Health BRB restored emergency dental services as a covered service for ALTCS adult enrollees, with a per member spending cap of \$1,000 annually. The FY 2017 Health BRB (Laws 2016, Chapter 122) previously restored preventive and other dental services for ALTCS adults, with a per member spending cap of \$1,000 annually. *(See the Adult Emergency Dental section for additional information.)*

Health Insurer Fee Moratorium

The budget includes a decrease of \$(1,047,800) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

General Fund	(180,900)
County Funds	(144,800)
Federal Medicaid Authority	(722,100)

(See the Health Insurer Fee Moratorium section for additional information.)

Nursing Facility Payments

The budget includes an increase of \$30,297,800 in FY 2018 to annualize a January 1, 2017 increase in supplemental payments to nursing facilities. This amount consists of:

Nursing Facility Provider Assessment Fund	9,242,600
Federal Medicaid Authority	21,055,200

The increase to supplemental payments is funded through an increase to the nursing facility assessment on January 1, 2017. AHCCCS increased the assessment rate from \$1.40 to \$1.80 for facilities with more than 43,500 Medicaid bed days per year (approximately 119 bed facilities) and from \$10.50 to \$15.63 for facilities with less than 43,500 Medicaid bed days per year.

The FY 2017 budget includes \$71,950,100 in supplemental payments to nursing facilities. A footnote, however, appropriates any payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$77,000,000 in supplemental payments in FY 2017. This \$5,049,900 increase to supplemental payments above the FY 2017 budget amount reflects additional funding from the January 1, 2017 increase to assessment rates.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$26,773 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 \$9,045 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 2016, AHCCCS estimates that client contributions paid for 5.5% of care.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 permits AHCCCS to set the amount of and 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 \$15.63 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year and \$1.80 per day of care for facilities with more than 43,500 Medicaid bed days. Pursuant to A.R.S. § 36-2999.52, AHCCCS may not increase rates to a level that generates assessment revenues in excess of 3.5% of facilities' net patient revenues.

Behavioral Health Services

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

Medicaid Behavioral Health - Traditional Services

The budget includes \$1,015,591,300 in FY 2018 for Medicaid Behavioral Health - Traditional Services. This amount consists of:

General Fund	273,534,100
TTHCF - Medically Needy Account	35,565,800
Federal Medicaid Authority	706,491,400

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$69,188,000 in FY 2018 for formula adjustments. This amount consists of:

General Fund	20,250,700
Federal Medicaid Authority	48,937,300

These adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium

The budget includes a decrease of \$(19,541,400) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

General Fund	(6,073,500)
Federal Medicaid Authority	(13,467,900)

(See the Health Insurer Fee Moratorium section for additional information.)

Background – This line item provides behavioral health treatment to Medicaid eligible adults and children. In June 2018, there are projected to be 1,105,416 eligible individuals. Behavioral health caseload projections differ slightly from acute care caseload projections primarily because behavioral health eligibility classifications are different from acute eligibility classifications for certain AHCCCS populations, including Developmentally Disabled individuals enrolled in ALTCS and CMDP Children.

Regional Behavioral Health Authorities (RHBAs) receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 88,305 individuals, or approximately 8.0% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral

health services. The acute care costs of the SMI population are included in the Traditional Medicaid Services line item.

Medicaid Behavioral Health - Proposition 204 Services

The budget includes \$649,608,300 in FY 2018 for Medicaid Behavioral Health - Proposition 204 Services. This amount consists of:

General Fund	109,562,000
Federal Medicaid Authority	540,046,300

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$41,195,300 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,731,500
Federal Medicaid Authority	39,463,800

These adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate for the non-Childless Adult population from 69.16% to 69.73%.
- An increase in the federal match rate for Childless Adults from 90.28% to 90.74%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium

The budget includes a decrease of \$(7,745,200) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

General Fund	(1,420,000)
Federal Medicaid Authority	(6,325,200)

(See the Health Insurer Fee Moratorium section for additional information.)

Background – This line item provides behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. In June 2018, there are projected to be 534,354 eligible individuals. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 63,928 individuals, or approximately 12.0% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Proposition 204 Services line item.

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

The budget includes \$217,719,100 in FY 2018 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	65,719,400
Federal Medicaid Authority	151,999,700

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$6,452,700 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,948,900
Federal Medicaid Authority	4,503,800

These adjustments include:

- 0% enrollment growth, due to a projected lack of growth in the number of children in the custody of the Department of Child Safety (DCS) in FY 2018.
- Increase in the federal match rate from 69.16% to 69.73%.
- 3.0% 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 budget assumes there will be 17,385 eligible individuals in June 2018. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for CMDP in FY 2018, and it is estimated that 11,167 individuals, or 64.2% of the eligible population, will utilize services.

Medicaid Behavioral Health - Adult Expansion Services

The budget includes \$77,403,100 in FY 2018 for Medicaid Behavioral Health - Adult Expansion Services. This amount consists of:

General Fund	4,269,200
Federal Medicaid Authority	73,133,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$5,179,800 in FY 2018 for formula adjustments. This amount consists of:

General Fund	3,437,300
Federal Medicaid Authority	1,742,500

These adjustments include:

- 1.5% enrollment growth.
- A decrease in the federal match rate from 97.5% to 94.5%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium

The budget includes a decrease of \$(1,512,300) in Federal Expenditure Authority in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. (See the *Health Insurer Fee Moratorium* 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 paid 100% of the cost of this population from 2014 to 2016. The federal share will gradually decline to 90% by 2020.

The budget assumes that 86,737 individuals will be enrolled in June 2018. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for the Adult Expansion, and it is estimated that 10,378 individuals, or approximately 12.0%, of the eligible population will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Adult Expansion Services line item.

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$78,846,900 from the General Fund in FY 2018 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2017.

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

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

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

Supported Housing

The budget includes \$5,324,800 from the General Fund in FY 2018 for Supported Housing. This amount is unchanged from FY 2017.

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.

Crisis Services

The budget includes \$16,391,300 in FY 2018 for Crisis Services. This amount consists of:

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

These amounts are unchanged from FY 2017.

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

Hospital Payments

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

Disproportionate Share Hospital Payments Overview

The Disproportionate Share Hospital (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 has historically been adjusted for annual changes in prices and the federal match rate.

Federal Reduction in Payments

The ACA would have reduced federal DSH payments nationwide by \$500 million in FY 2014 and gradually increased the reductions to \$5.6 billion by FY 2019. Subsequent federal legislation, though, has delayed and modified the reduction amounts. Under the Medicare

Table 3
Disproportionate Share Payments

	<u>FY 2017</u>	<u>FY 2018</u>
Eligible Funding ^{1/}		
MIHS - CPE	\$113,818,500	\$108,874,800
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match ^{2/}	<u>19,896,000</u>	<u>0</u>
Total Funding	\$163,074,200	\$138,234,500
Net Distribution - Disproportionate Share Payments		
General Fund		
Retain FF of CPE (via MIHS)	\$ 74,605,600	\$ 71,890,300
Retain FF of CPE (via ASH)	<u>19,716,000</u>	<u>19,901,100</u>
Subtotal - General Fund	\$ 94,321,600	\$ 91,791,400
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	\$ 99,408,700	\$ 96,878,500
Match	\$ 19,896,000	\$ 0
Total Distributions	\$119,304,700	\$96,878,500

^{1/} Amounts include state and federal match funding.
^{2/} The budget continues a footnote that appropriates any payments in excess of \$0 for DSH Voluntary Payments in FY 2018.

Access and CHIP Reauthorization Act of 2015, nationwide DSH payment reductions of \$2.0 billion will begin in FY 2018 and would gradually increase to \$8.0 billion by FY 2024.

Given the scheduled federal reduction in payments, the state's total DSH payments are estimated to decrease by \$(24,839,700), from \$163,074,200 in FY 2017 to \$138,234,500 in FY 2018. Of the \$138,234,500 of eligible DSH funding in FY 2018, \$96,878,500 is distributed according to the allocations described below and listed in Table 3. The remaining \$41,356,000 of eligible funding represents existing expenditures used as part of the state match.

General Fund Distributions

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

The FY 2017 Health BRB sets the eligible funding for MIHS at \$113,818,500 in FY 2017. As a result of projected federal reductions to DSH payments, Section 13 of the FY 2018 Health BRB reduces this amount to \$108,874,800 in FY 2018. The state will retain \$71,890,300 in Federal

Funds in FY 2018 for deposit to the General Fund. The FY 2018 budget continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,901,100 in FY 2018.

In total, the Federal Funds drawn down for MIHS and ASH add \$91,791,400 to General Fund revenue in FY 2018. This amount represents a \$(2,530,200) reduction in deposits to the General Fund, relative to FY 2017. While the budget decreases the General Fund distribution as a result of the reduction in Federal Funds, the General Fund appropriation for MIHS could have alternatively been reduced by \$(2,530,200) in FY 2018.

MIHS Distribution

While the state retains \$71,890,300 of the MIHS federal match as General Fund revenue, the budget includes an appropriation of \$4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line.

Private Hospital Distribution

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The budget includes an \$884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line, including \$266,400 from the General Fund and \$618,400 in Federal Medicaid Authority.

DSH Voluntary Match Distribution

The state allows 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. As a result of reductions to federal DSH payments, the budget includes no funding for this distribution in the DSH Payments - Voluntary Match line in FY 2018. The FY 2018 budget continues a prior year footnote that appropriates any additional payments in excess of \$0.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2018 for Disproportionate Share Payments. This amount consists of:

General Fund	266,400
Federal Medicaid Authority	4,820,700

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(5,800) from the General Fund and a corresponding increase of \$5,800 from Federal Medicaid Authority in FY 2018 due to a change in the federal match rate.

Of the \$5,087,100 of total funds appropriated by the budget in the Disproportionate Share Payments line, \$884,800 represents distributions to private hospitals including \$266,400 from the General Fund and \$618,400 in federal expenditure authority. In FY 2016, there were 40 private hospitals that received DSH payments. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The budget includes no funding in FY 2018 for DSH Payments - Voluntary Match. This amount funds the following adjustments:

Reduced Funding

The budget includes a decrease of \$(19,896,000) in FY 2018 for a reduction in eligible DSH funding. This amount consists of:

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

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. While the budget does not include funding for the line item in FY 2018, it continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of \$0. Section 13 of the FY 2018 Health BRB continues to give priority to eligible rural hospitals when allocating voluntary match DSH payments, and continues to permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed \$108,874,800 in FY 2018. In FY 2016 there were 7 hospitals that received voluntary match DSH payments.

Rural Hospitals

The budget includes \$22,650,000 in FY 2018 for Rural Hospitals (which includes Critical Access Hospitals). This amount consists of:

General Fund	6,819,900
Federal Medicaid Authority	15,830,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(147,200) from the General Fund and a corresponding increase of \$147,200 from Federal Medicaid Authority in FY 2018 due to a change in the federal match rate.

The FY 2017 Health BRB requires AHCCCS to report any voluntary payments paid to Critical Access Hospitals (CAHs) by political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding in FY 2017. AHCCCS indicated the agency does not plan to submit a proposal to the federal government for voluntary payments to CAHs. As a result, the FY 2018 Health BRB does not continue this provision in FY 2018.

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 2016, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from CAH.

Graduate Medical Education

The budget includes \$265,729,800 in FY 2018 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	80,443,100
Federal Medicaid Authority	185,286,700

These amounts fund the following adjustments:

Decreased Funding

The budget includes a decrease of \$(30,558,200) in FY 2018 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(12,183,300)
Federal Medicaid Authority	(18,374,900)

Although the FY 2017 General Appropriation Act displays a \$162,992,600 appropriation for FY 2017, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$296,288,000 in total GME payments in FY 2017, or \$133,295,400 more than appropriated in the FY 2017 budget. The revision to payments in FY 2017 reflects a federally-approved change in AHCCCS' methodology for

calculating Graduate Medical Education funds for training hospitals.

The FY 2017 appropriation has been adjusted to the \$296,288,000 level. Of that amount, \$30,558,200 represents one-time late payments for medical education costs incurred in calendar year 2015. The budget decrease is associated with removing this delay in payments.

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 FY 2016, 12 hospitals received a total of \$163,725,900 for Graduate Medical Education.

AHCCCS uses 2 formulas to calculate GME payments to training hospitals. Prior to FY 2017, hospitals received payments according to whichever formula provided the lesser amount of funding. Beginning in FY 2017, the federal government permits hospitals to receive payments according to which formula provides the greater amount of funds.

Safety Net Care Pool

The budget includes \$75,000,000 in FY 2018 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	22,704,400
Federal Medicaid Authority	52,295,600

These amounts fund the following adjustments:

Decreased Funding

The budget includes a decrease of \$(62,000,000) in FY 2018 to reflect the federal phase-down of the program. This amount consists of:

Political Subdivision Funds	(19,436,800)
Federal Medicaid Authority	(42,563,200)

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 (Laws 2013, 1st Special Session, Chapter 10) allowed Phoenix Children’s Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017.

Section 9 of the FY 2018 Health BRB further extends the date PCH may participate in the program to December 31, 2019. The federal government, however, has indicated it plans to end funding for the program after December 31, 2017. The budget continues a prior year footnote that appropriates any additional payments in excess of \$75,000,000 in FY 2018.

Additional Legislation

FY 2018 Health BRB

In addition to the previously mentioned items and items mentioned in the *County Contributions* section below, the FY 2018 Health BRB includes the following provisions:

Rates and Services

As session law, Section 19 continues the FY 2010 risk contingency rate reduction for all managed care organizations by 50% and continues to impose a 5.88% reduction of funding for all managed care organizations administrative funding levels.

Counties

As session law, Section 17 continues to exclude Proposition 204 administration costs from county expenditure limitations.

As session law, Section 14 continues to require AHCCCS to transfer any excess monies back to the counties on December 31, 2018 if the counties’ portion of the state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

Erroneous Payments

As session law, Section 20 continues to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Subject to legislative appropriation, credits may be used to pay for the AHCCCS program in the year they are received.

Available Funding

As session law, Section 25 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

Reports

As permanent law, Section 3 continues to require AHCCCS to submit a report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) by December 1 of 2017 and each year thereafter on the use of emergency departments for non-emergency use by AHCCCS enrollees.

As session law, Section 21 continues to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor on or before January 2, 2018 on hospital costs and charges.

As session law, Section 22 continues to require AHCCCS to report to JLBC on or before January 2, 2018 on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health Authorities. The report will include the following information:

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

As permanent law, Section 5 continues to require AHCCCS to report by November 1 of 2017 and each year thereafter on the feasibility of expanding 340B Drug Discount Program requirements enacted under the FY 2017 Health BRB to hospitals.

Tribal Court-Ordered Treatment

Laws 2017, Chapter 89 permits mental health treatment facilities to admit a patient for involuntary treatment pending the filing of an involuntary commitment order by a Tribal Court. The patient must be discharged if the order is not filed by the close of the next business day that the Tribal Court is open. The bill is intended to increase access to mental health treatment facilities outside of tribal service areas.

Clinical Oversight Committee

Laws 2017, Chapter 207 requires AHCCCS to establish an internal clinical oversight review committee to review clinical data for specific populations and agency initiatives, including behavioral health services.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2017 Supplemental
- State Prescription Drug Rebate Fund
- AHCCCS CARE and Waiver Submittal
- SMI Funding
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS's General Fund spending by \$110.8 million in FY 2019 above FY 2018 and \$160.2 million in FY 2020 above FY 2019.

These estimates are based on:

- Overall enrollment growth of 2.0% in FY 2019 and FY 2020.
- Capitation rate growth of 3.5% in FY 2019 and FY 2020.
- An increase in the federal match rate (from 69.73% in FY 2018 to 70.04% in FY 2019 and 70.20% in FY 2020).
- A decrease in the federal match rate for Child Expansion and KidsCare populations (from 100% in FY 2019 to 79.16%, beginning October 1, 2019).
- Resumption of the federal health insurer fee in FY 2019, following a 1-year moratorium in FY 2018. This is projected to increase General Fund spending by \$23.7 million in FY 2019 above FY 2018 and by \$0.6 million in FY 2020 above FY 2019.
- Provider rate increases associated with Proposition 206 minimum wage hikes to \$11.00 on January 1, 2019 and \$12.00 on January 1, 2020. This is projected to increase General Fund spending by \$1.7 million in FY 2019 above FY 2018 and by \$2.6 million in FY 2020 above FY 2019.

Laws 2016, Chapter 112 required AHCCCS to terminate the KidsCare program if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. Sections 7 and 8 of the FY 2018 Health BRB replace the requirement to terminate the program with a requirement to freeze enrollment. The BRB additionally clarifies that AHCCCS will freeze enrollment if

the program's federal match rate drops below 100% of costs.

Under federal law, the KidsCare program's current federal match rate of 100% will expire and decrease to a projected rate of 79.16% on October 1, 2019. Given provisions of the FY 2018 Health BRB, new enrollment would end on that date. A freeze is projected to reduce enrollment from 34,700 in September 2019 to 19,900 by June 2020. The General Fund savings would be \$(5.2) million in FY 2020.

Though not part of the agency 3-year General Fund spending plan, federal reductions in Disproportionate Share Hospital (DSH) payments are expected to reduce General Fund revenues. The budget revenue forecast projects General Fund distributions to decrease by \$(7.2) million in FY 2019 below FY 2018 and by \$(7.2) million in FY 2020 below FY 2019. (See *Disproportionate Share Hospital Payments Overview* section for additional detail.)

FY 2017 Supplemental

The budget includes a FY 2017 supplemental increase of \$129,680,600. *Table 4* shows the supplemental appropriation included in the budget by fund source. Of the \$129,680,600 total, \$63,225,800 is from appropriated Children's Health Insurance Program (CHIP) funding and \$66,454,800 is an increase in Expenditure Authority federal funds. These amounts fund KidsCare Restoration, realignment of appropriations with available federal funds, and formula growth.

General Fund	\$0
<u>Appropriated Funds</u>	
Children's Health Insurance Program Fund	63,225,800
<u>Expenditure Authority of Federal Funds</u>	
	66,454,800
Total Funds	\$129,680,600

KidsCare Restoration

While Laws 2016, Chapter 112 required AHCCCS to reopen the KidsCare program, the legislation did not include an adjustment for increased program costs. The budget includes \$63,225,800 in supplemental CHIP funding for KidsCare in FY 2017. Of that amount, \$59,225,800 funds services and \$4,000,000 funds administrative costs of the program. (See the *KidsCare Services* line item for additional detail.)

Realign Federal Funding

Of the \$66,454,800 supplemental Expenditure Authority in FY 2017, \$40,000,000 represents realignment of federal

funding levels for AHCCCS administration in the budget with amounts the agency currently receives. Medicaid administrative costs have generally received a 50% federal match rate. Since FY 2014, the Federal Affordable Care Act (ACA) has provided the state enhanced match rates of 75% to 100% for qualifying information technology and eligibility determination costs. Under the ACA, AHCCCS has received increased federal funding for these administrative costs without additional state match monies. The budget increases federal funding levels in FY 2017 to reflect the increased federal funding received by the agency.

Formula Growth

Of the \$66,454,800 increase to Expenditure Authority federal funding in FY 2017, \$26,454,800 funds greater-than-budgeted formula growth in FY 2017. This net increase primarily funds Acute Care capitation rate increases for certain populations. The FY 2017 budget included capitation rate growth of 1.5% while actual acute care rates increased 7.1% for Proposition 204 Childless Adults and 5.1% for the Adult Expansion population. Growth in capitation rates for these populations was partly driven by expanded coverage of Hepatitis C drugs.

Although revisions to FY 2017 estimates are expected to be associated with \$12,468,000 in additional General Fund expenditures, the budget does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of supplemental through cash flow.

State Prescription Drug Rebate Fund

AHCCCS reported an ending balance of \$52,817,900 for the state portion of the Prescription Drug Rebate Fund (PDRF - State) in FY 2016. The JLBC Staff projects \$137,077,600 in rebate collections will be added to that balance in FY 2017 for total revenues of \$189,895,500 in FY 2017.

The FY 2018 budget requires AHCCCS to make a one-time transfer of \$30,000,000 from PDRF - State to the General Fund on or before June 30, 2017. Following that transfer and \$113,778,900 in agency appropriations, the balance in the fund is projected to equal \$46,116,600 at the end of FY 2017 (see *Table 5*).

The JLBC Staff projects \$140,367,400 in rebate collections will be added to the balance for total revenues of \$186,484,000 in FY 2018. Given that collections and total revenues are projected to substantially outpace the agency's appropriation of PDRF - State in FY 2017, the budget increases agency appropriations from the fund by \$31,912,300 in FY 2018. This amount funds the following increases in FY 2018:

- \$30,000,000 for Traditional Medicaid Services. (See the Prescription Drug Rebate Fund Increase section for more information.)
- \$1,490,500 in the Traditional Medicaid Services and ALTCS lines for restoring adult emergency dental services. (See the Adult Emergency Dental Restoration section for more information.)
- \$220,900 in the Operating Budget and administration lines for monitoring prescription drug use. (See the Prescription Drug Review Initiative section for more information.)
- \$200,000 for a report on the effects of Proposition 206 on provider network adequacy. (See Proposition 206 Rate Increase section for more information.)
- \$900 in the Operating Budget and administration lines for statewide adjustments.

After total disbursements of \$145,691,200 in FY 2018, the balance in the fund is projected to equal \$40,792,800 at the end of the year.

- \$8 for non-emergency use of an emergency department.
- \$4 for opioid prescriptions or refills.
- \$4 for use of brand name drugs when a generic option is available.
- Up to \$10 for using specialist services without a primary care physician referral.
- Health targets including smoking cessation and wellness exams.
- Referral to employment and job training resources administered by the Department of Economic Security.

The FY 2017 budget included \$(1.4) million in General Fund savings in FY 2017 and \$(1.8) million in FY 2018 for cost sharing provisions. The approved waiver provisions are expected to result in minimal savings. For example, premiums levied under the AHCCCS CARE program fund costs for non-Medicaid services, such as vision plans, chiropractic services or a gym membership. Savings estimates under the FY 2017 budget, however, presumed premiums would offset AHCCCS costs for Medicaid services. The FY 2017 budget additionally included savings for a mandatory \$25 copay for inappropriate emergency room use by all adult enrollees. The AHCCCS CARE program alternatively charges coinsurance for select services to approximately 70,000 Adult Expansion enrollees. The FY 2018 budget does not include any savings associated with the approved AHCCCS CARE program.

The federal government did not approve several other provisions of the state's waiver proposal, including:

- Suspension of funding for non-emergency medical transportation for the Adult Expansion population.
- A lifetime limit of 5 years for enrollment of able-bodied adults.
- A requirement for able-bodied adults to work, actively seek work, or participate in a job training program.

Laws 2015, Chapter 7 requires AHCCCS to reapply by March 30 of each year to implement the 5-year lifetime limit and the requirement to work, actively seek work, or participate in a job training program. AHCCCS estimates that if approved in the future, a 5-year time limit could affect coverage for at least 242,000 AHCCCS enrollees, but has not estimated the impact of a work requirement. As of this writing, AHCCCS had not reapplied for these provisions in 2017.

Table 5

State Prescription Drug Rebate Fund Sources and Uses ^{1/}

	FY 2017	FY 2018
Revenues		
Projected Beginning Balance	\$52,817,900	\$46,116,600
Projected Rebate Collections	<u>137,077,600</u>	<u>140,367,400</u>
Total Revenues	189,895,500	186,484,000
Disbursements		
AHCCCS Appropriations		
Operating Budget and Administration	500,000	721,800
Proposition 206 Network Study	0	200,000
Traditional Services	105,837,600	137,191,000
ALTCS Services	<u>7,441,300</u>	<u>7,578,400</u>
Subtotal Appropriations	113,778,900	145,691,200
Transfers to the General Fund	<u>30,000,000</u>	<u>0</u>
Total Disbursements	143,778,900	145,691,200
Projected Ending Balance	\$46,116,600	\$40,792,800

^{1/} Amounts reported in the FY 2018 Baseline Book have been updated for a revised rebate forecast and increases to disbursements included in the FY 2018 budget.

AHCCCS CARE and Waiver Submittal

In September 2016, the Executive announced federal approval of the AHCCCS CARE program under the state's Section 1115 waiver. The program includes the following provisions that apply to the Adult Expansion population of individuals with income from 100-133% FPL:

- A premium equal to 2% of income.
- Coinsurance charges up to 3% of income, including:

SMI Funding

Table 6 shows the total Medicaid funding in FY 2018 for behavioral health services for the integrated SMI population is \$744.4 million for 42,417 recipients. State and federal funding for behavioral health services for this population is located in the Traditional, Proposition 204, and Adult Expansion line items of the behavioral health services portion of the AHCCCS budget.

In FY 2018, an estimated \$33.8 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$6.7 million is state matching funds, and \$27.1 million is federal matching funds.

Table 6
FY 2018 Budgeted 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	\$125,757,500	\$359,304,000	\$485,061,500	22,168
Integrated SMI				
Greater AZ	<u>65,682,600</u>	<u>193,670,100</u>	<u>259,352,700</u>	<u>20,249</u>
Total ^{1/}	<u>\$191,440,100</u>	<u>\$552,974,100</u>	<u>\$744,414,200</u>	<u>42,417</u>

^{1/} These estimates reflect Medicaid capitation spending for the SMI population. They do not include any services funded by non-Medicaid state funds, federal grant funds, or county funds.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in Table 7. FY 2018 payments listed in the table are specified in sections 10, 15, and 16 of the FY 2018 Health BRB.

The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2016 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2018, this provision provides 4 counties with a total of \$7,475,100 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2018, this provision provides 3 counties with a total of \$13,638,600 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 2018 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$40.59 in FY 2018). In FY 2018

Table 7
County Contributions

County	FY 2017				FY 2018			
	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>
Apache	\$117,400	\$268,800	\$87,300	\$625,200	\$120,500	\$268,800	\$87,300	\$657,500
Cochise	219,100	2,214,800	162,700	4,995,000	224,700	2,214,800	162,700	5,241,100
Coconino	216,100	742,900	160,500	1,877,300	221,700	742,900	160,500	1,974,000
Gila	88,800	1,413,200	65,900	2,112,600	91,100	1,413,200	65,900	2,208,500
Graham	63,100	536,200	46,800	1,303,500	64,700	536,200	46,800	1,561,800
Greenlee	16,200	190,700	12,000	33,500	16,600	190,700	12,000	28,000
La Paz	33,600	212,100	24,900	595,600	34,500	212,100	24,900	526,000
Maricopa	0	19,011,200	0	155,173,500	0	18,783,100	0	165,477,400
Mohave	252,300	1,237,700	187,400	7,948,800	258,800	1,237,700	187,400	8,350,800
Navajo	165,300	310,800	122,800	2,588,200	169,600	310,800	122,800	2,721,500
Pima	1,502,600	14,951,800	1,115,900	39,243,800	1,541,300	14,951,800	1,115,900	40,974,000
Pinal	294,000	2,715,600	218,300	14,899,800	301,600	2,715,600	218,300	15,344,200
Santa Cruz	69,500	482,800	51,600	1,930,900	71,300	482,800	51,600	2,040,600
Yavapai	277,700	1,427,800	206,200	8,391,300	284,900	1,427,800	206,200	8,840,500
Yuma	<u>247,600</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,261,000</u>	<u>254,000</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,727,300</u>
Subtotal	<u>\$3,563,300</u>	<u>\$47,041,500</u>	<u>\$2,646,200</u>	<u>\$249,980,000</u>	<u>\$3,655,300</u>	<u>\$46,813,400</u>	<u>\$2,646,200</u>	<u>\$264,673,200</u>
Total				<u>\$303,231,000</u>				<u>\$317,788,100</u>

this provision provides 9 counties with a total of \$9,668,900 in relief.

In FY 2018, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$30,782,600 in relief to 12 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 2018, the average capitation rate for acute care is expected to be approximately \$357 per member per month (or \$4,287 annually). Of that amount, an average of \$82 is from state match and \$275 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be \$94 per member per month (or \$1,123 annually), with an average of \$23 for state match and \$71 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 budget continues to require AHCCCS to continue to transfer up to \$1,636,000 from the Traditional Medicaid Services line item in FY 2018 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

- Up to \$1,200,000 to the Attorney General for costs associated with tobacco settlement litigation.
- \$436,000 to the Department of Revenue to fund 6 positions that will perform luxury tax enforcement and audit duties.

This adjustment does not include the \$823,900 appropriation (\$85,300 General Fund and \$738,600 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 that is distributed to states that diligently enforce the provisions and collection of tobacco tax laws. 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 was the first year tobacco tax collections came under diligent enforcement scrutiny under the provisions of the amended settlement. The monies provided in the budget allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The latter automates the current manual data entry process, allows delinquent returns and account information to be tracked, and logs data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data.

Tobacco Tax Allocations

Table 8 is a summary of the tobacco tax allocations.

Table 8

Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund

	FY 2016	FY 2017	FY 2018
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,346,200	\$ 591,300	\$ 302,600
Transfer In - Tobacco Tax and Health Care Fund	47,474,100	47,508,000	47,651,500
Transfer In - Tobacco Products Tax Fund	25,884,000	25,901,500	25,979,800
Total Funds Available	\$ 79,704,300	\$ 74,000,800	\$ 73,933,900
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 34,498,500	\$ 72,998,200	\$ 72,998,200
Total AHCCCS Allocations	\$ 34,498,500	\$ 72,998,200	\$ 72,998,200
<i>DHS</i>			
Behavioral Health GF Offset <u>1/2/</u>	\$ 44,002,300	\$ 0	\$ 0
Folic Acid	387,200	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000	300,000
Total DHS Allocations	44,614,500	700,000	700,000
Balance Forward	\$ 591,300	\$ 302,600	\$ 235,700
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 3,352,200	\$ 2,123,200	\$ 4,893,500
Transfer In - Tobacco Products Tax Fund	40,263,900	40,291,300	40,413,000
Total Funds Available	\$ 43,616,100	\$ 42,414,500	\$ 45,306,500
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	38,140,700	37,521,000	40,413,000
Total AHCCCS Allocations	38,140,700	37,521,000	40,413,000
<i>DHS</i>			
Behavioral Health GF Offset <u>2/</u>	3,352,200	0	0
Total DHS Allocations	3,352,200	0	0
Balance Forward	\$ 2,123,200	\$ 4,893,500	\$ 4,893,500
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 62,400	\$ 501,500
Transfer In - Tobacco Products Tax Fund	19,173,300	19,186,300	19,244,300
Total Funds Available	\$ 19,173,300	\$ 19,248,700	\$ 19,745,800
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 18,162,200	18,747,200	19,244,300
Administrative Adjustments	948,700	0	0
Balance Forward <u>3/</u>	\$ 62,400	\$ 501,500	\$ 501,500
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,444,900	\$ 7,054,500	\$ 3,362,900
Transfer In - Tobacco Tax and Health Care Fund	15,621,100	15,609,800	15,656,900
Transfer In - Tobacco Products Tax Fund	2,088,000	1,918,600	1,924,400
Total Funds Available	\$ 24,154,000	\$ 24,582,900	\$ 20,944,200
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 14,855,200	\$ 18,434,700	\$ 18,434,700
Leading Causes of Death - Prevention and Detection	2,244,300	2,785,300	2,785,300
Balance Forward	\$ 7,054,500	\$ 3,362,900	\$ (275,800) *
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 8,795,300	\$ 10,357,600	\$ 5,818,200
Transfer In - Tobacco Tax and Health Care Fund	3,390,900	3,393,300	3,403,600
Transfer In - Tobacco Products Tax Fund	4,945,800	4,796,600	4,811,100
Total Funds Available	\$ 17,132,000	\$ 18,547,500	\$ 14,032,900
<u>Allocations</u>			
Biomedical Research Support <u>4/</u>	\$ 1,496,300	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research <u>5/</u>	1,000,000	2,000,000	1,000,000
Biomedical Research Commission <u>6/</u>	3,280,600	8,729,300	8,729,300
Administrative Adjustments	997,500	0	0
Balance Forward	\$ 10,357,600	\$ 5,818,200	\$ 2,303,600

1/ Laws 2016, Chapter 117 appropriated \$9,235,300 from the Medically Needy Account to DHS in FY 2016 to provide one-time funding for higher-than-anticipated behavioral health caseload growth in FY 2016.

2/ Laws 2016, Chapter 117 permitted AHCCCS to transfer up to \$3,352,200 from the Proposition 204 Protection Account to DHS for behavioral health costs in FY 2016. AHCCCS transferred the full amount in FY 2016, which DHS reported was spent from the Medically Needy Account. The table displays the \$3,352,200 of spending by DHS from the Proposition 204 Protection Account.

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

4/ 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).

5/ Laws 2016, Chapter 117 appropriates \$2,000,000 from the Health Research Account in FY 2017, which includes a one-time funding increase of \$1,000,000 for Alzheimer's disease research.

6/ Laws 2017, Chapter 136 repealed the Biomedical Research Commission. DHS reports that monies in the Health Research Account will continue to be spent on initiatives previously reviewed by the commission in FY 2018, including research grants, research education, biospecimen locator, and public cord blood.

* Actual ending balance will not be negative.

Arizona Commission on the Arts

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	0	1,500,000	1,500,000
AGENCY TOTAL	0	1,500,000	1,500,000
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	0	1,500,000	1,500,000
SUBTOTAL - Other Appropriated Funds	0	1,500,000	1,500,000
SUBTOTAL - Appropriated Funds	0	1,500,000	1,500,000
Other Non-Appropriated Funds	1,621,800	1,456,000 ^{1/}	1,456,000 ^{1/}
Federal Funds	836,000	833,000	833,000
TOTAL - ALL SOURCES	2,457,800	3,789,000	3,789,000

AGENCY DESCRIPTION — The agency promotes arts in the state by offering matching grants to communities and arts organizations, developing programs in-house to showcase artists in all disciplines, and serving as a resource for local artists.

Arts Trust Fund Deposit

The budget includes \$1,500,000 from the Budget Stabilization Fund in FY 2018 for a one-time deposit into the non-appropriated Arts Trust Fund. The budget appropriates this amount from interest income earned on the Budget Stabilization Fund. This amount is unchanged from FY 2017.

Monies in the Arts Trust Fund are used to award grants to organizations with the purpose of advancing and fostering the arts in Arizona. A portion of the funds are statutorily used to provide grants to organizations representing handicapped persons or racial or ethnic minorities and organizations representing rural areas.

^{1/} Monies appropriated from the Budget Stabilization Fund for deposit into the Arts Trust Fund pursuant to the FY 2017 and FY 2018 General Appropriation Act are not displayed to avoid double counting of appropriations.

Board of Athletic Training

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	59,000	63,100	63,100
Employee Related Expenditures	22,300	35,600	37,100
Travel - In State	1,200	1,200	1,200
Other Operating Expenditures	19,100	19,200	19,200
AGENCY TOTAL	101,600	119,100	120,600 ^{1/}

FUND SOURCES

Other Appropriated Funds

Athletic Training Fund	101,600	119,100	120,600
SUBTOTAL - Other Appropriated Funds	101,600	119,100	120,600
SUBTOTAL - Appropriated Funds	101,600	119,100	120,600
TOTAL - ALL SOURCES	101,600	119,100	120,600

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

Operating Budget

The budget includes \$120,600 and 1.5 FTE Positions from the Athletic Training Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,500 from the Athletic Training Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$45,900 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

Attorney General - Department of Law

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	583.5	580.7 ^{1/}	580.7 ^{2/}
Personal Services	29,476,300	32,176,600	33,776,600
Employee Related Expenditures	10,917,900	11,921,600	13,087,900
Professional and Outside Services	349,500	1,210,100	1,210,100
Travel - In State	93,600	93,500	93,500
Travel - Out of State	84,400	67,700	67,700
Other Operating Expenditures	7,094,500	5,516,100	5,419,800
Equipment	461,700	317,900	317,900
OPERATING SUBTOTAL	48,477,900	51,303,500	53,973,500 ^{3/}
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	769,300	795,700	803,100
Internet Crimes Against Children Enforcement	0	1,250,000	1,250,000 ^{4/5/}
Federalism Unit	724,200	995,600	1,005,100
Military Airport Planning	89,000	85,000	85,000 ^{6/}
National Mortgage Settlement Distribution	3,152,000	0	0
Risk Management Interagency Service Agreement	8,741,600	9,406,700	9,468,600
Southern Arizona Law Enforcement	1,198,600	1,193,000	1,206,500
State Grand Jury	179,700	180,100	181,100
Tobacco Enforcement	227,500	816,000	823,900
Victims' Rights	3,704,700	3,758,900	3,761,300
AGENCY TOTAL	67,264,500	69,784,500	72,558,100 ^{7/}
FUND SOURCES			
General Fund	23,496,700	24,664,800	26,344,200
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	158,100	244,300	246,300
Attorney General Legal Services Cost Allocation Fund	2,073,300	2,080,400	2,080,400
Collection Enforcement Revolving Fund	6,803,500	6,845,200	6,920,900
Consumer Protection - Consumer Fraud Revolving Fund	4,170,900	5,575,700	6,335,600
Court-Ordered Trust Fund	3,152,000	0	0
Interagency Service Agreements Fund	14,194,400	16,308,500 ^{1/}	16,500,800 ^{8/}
Internet Crimes Against Children Enforcement Fund	0	900,000	900,000
Risk Management Revolving Fund	8,741,600	9,406,700	9,468,600
State Aid to Indigent Defense Fund	769,300	0	0
Victims' Rights Fund	3,704,700	3,758,900	3,761,300
SUBTOTAL - Other Appropriated Funds	43,767,800	45,119,700	46,213,900
SUBTOTAL - Appropriated Funds	67,264,500	69,784,500	72,558,100
Other Non-Appropriated Funds	34,660,900	50,199,900	50,199,900
Federal Funds	4,929,400	5,794,500	5,473,500
TOTAL - ALL SOURCES	106,854,800	125,778,900	128,231,500

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.

^{1/} In November 2016, the Attorney General notified the JLBC that it expected to use its full FY 2017 ISA Fund appropriation as well as 6 FTE Positions of the total 11 FTE Positions and the entire \$800,000 of the ISA Fund reserve appropriation. As a result, the FY 2017 estimate has increased by 6 FTE Positions and \$800,000 over the FY 2017 Appropriation Report amount.

^{2/} Includes 22.2 GF and 112 OF FTE Positions funded from Special Line Items in FY 2018.

Operating Budget

The budget includes \$53,973,500 and 446.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
General Fund	\$23,633,200
Antitrust Enforcement Revolving Fund	246,300
Attorney General Legal Services Cost Allocation Fund	2,080,400
Collection Enforcement Revolving Fund (CERF)	6,920,900
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	4,591,900
Interagency Service Agreements (ISA) Fund	16,500,800

These amounts fund the following adjustments:

Criminal Division Resources

The budget includes an increase of \$1,500,000 from the General Fund in FY 2018 for additional Criminal Division resources. A footnote in the FY 2018 General Appropriation Act appropriates this same amount for both FY 2019 and FY 2020. Currently, a portion of the Criminal Division within the AG's Office is funded through civil asset forfeiture or Racketeer Influenced and Corrupt Organizations (RICO) Act monies. These are monies that are derived from cash and assets that are seized from individuals that are believed to have engaged in a wide array of illicit activities. Due to the unstable nature of revenues collected from these sources, these resources will offset the cost of 10 FTE Positions within the Criminal Division. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Healthcare Fraud

The budget includes an increase of \$700,000 from the CPCF Revolving Fund in FY 2018 for matching monies for additional Healthcare Fraud staff. These funds will provide a 25% match to federal funding that will allow for the hiring of 9 attorneys to prosecute cases of Medicaid fraud. In lieu of increasing the agency's FTE Position

authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Additional Resources

The budget continues an increase of \$500,000 from CPCF in FY 2018 for additional resources originally designated as one-time in the FY 2017 budget. These monies will help the AG to more efficiently handle additional responsibilities that have been added to the agency over time. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Statewide Adjustments

The budget includes an increase of \$470,000 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	156,600
Antitrust Enforcement Revolving Fund	2,000
CERF	75,700
CPCF Revolving Fund	43,400
ISA Fund	192,300

(Please see the Agency Detail and Allocations section.)

Capital Postconviction Prosecution

The budget includes \$803,100 and 6 FTE Positions from the General Fund in FY 2018 for Capital Postconviction Prosecution. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,400 from the General Fund in FY 2018 for statewide adjustments.

This line item funds costs associated with prosecuting capital cases after the initial conviction.

Internet Crimes Against Children Enforcement

The budget includes \$1,250,000 in FY 2018 for the Internet Crimes Against Children (ICAC) Enforcement line item. This amount consists of:

- 3/ The sum of \$1,500,000 in FY 2019 and the sum of \$1,500,000 in FY 2020 are appropriated from the state General Fund to the Attorney General for operating expenses of the Criminal Division. (General Appropriation Act footnote)
- 4/ On or before June 1, 2017, the department shall submit an expenditure plan for the FY 2018 Internet Crimes Against Children Enforcement line item for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 5/ The \$900,000 appropriation from the Internet Crimes Against Children Enforcement Fund and the \$350,000 appropriation from the state General Fund for the Internet Crimes Against Children Enforcement line item are continuing appropriations and are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, through June 30, 2019. (General Appropriation Act footnote)
- 6/ A.R.S. § 26-263 annually appropriates \$85,000 from the General Fund for Military Airport Planning. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 7/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 8/ All monies appropriated to the Attorney General Legal Services line item in the Department of Child Safety budget do not count toward the Attorney General's Interagency Service Agreements Fund appropriation in FY 2018. (General Appropriation Act footnote)

General Fund	350,000
ICAC Enforcement Fund	900,000

These amounts are unchanged from FY 2017.

Laws 2015, Chapter 245 established the ICAC Enforcement Fund 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 also allocates \$100,000 to the Victims' Rights Enforcement Fund from the same proceeds. This fund is continuously appropriated and administered by the Department of Public Safety.

If the lottery games do not produce sufficient funds for the \$900,000 and \$100,000 allocations, as was the case in FY 2015, then unclaimed lottery prize monies will be used to backfill the difference.

Chapter 245 requires the Attorney General to enter into 1 or more intergovernmental agreements to continue operation of the Arizona Internet Crimes Against Children Task Force (AZICAC), led by the Phoenix Police Department. AZICAC is a joint federal/local law enforcement task force that investigates child pornography.

The FY 2017 budget included 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 Department of Child Safety was subject to a similar footnote in FY 2016.
- The second makes the appropriation in this line item non-lapsing until the end of FY 2018. The intent of this provision is to provide flexibility for recipients of ICAC monies to spend their allotments.

The budget continues these footnotes in FY 2018. At its September 21, 2016 meeting, the JLBC provided a favorable review of the AG's proposed expenditure plan for the \$1,250,000 FY 2017 ICAC appropriation. The expenditure plan included funding for 4 FTE Positions in the Phoenix Police Department that will be full-time staff of AZICAC, 2 FTE Positions within the AG's office that will work exclusively on ICAC-related cases, and equipment, training, and other operational costs of AZICAC.

Federalism Unit

The budget includes \$1,005,100 and 7 FTE Positions from the CPCF Revolving Fund in FY 2018 for the Federalism Unit. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$9,500 from the CPCF Revolving Fund in FY 2018 for statewide adjustments.

This line item provides funding for the Attorney General to defend the state in cases related to federal issues. Some of these legal expenses had previously been borne by the Governor's Office.

Military Airport Planning

The budget includes \$85,000 and 1 FTE Position from the General Fund in FY 2018 for Military Airport Planning. These amounts are unchanged from FY 2017.

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.

Risk Management Interagency Service Agreement

The budget includes \$9,468,600 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2018 for the Risk Management Interagency Service Agreement. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$61,900 from the Risk Management Revolving Fund in FY 2018 for statewide adjustments.

This line item provides funding for the Attorney General's contract with the Risk Management Division of the Arizona Department of Administration. Attorneys from the Attorney General's Office defend the state in most risk management cases regarding agency liability.

Southern Arizona Law Enforcement

The budget includes \$1,206,500 and 13 FTE Positions from the General Fund in FY 2018 for Southern Arizona Law

Enforcement. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$13,500 from the General Fund in FY 2018 for statewide adjustments.

This line item provides funding for the Criminal Division’s investigations and prosecutions of fraud, corruption, criminal enterprise, drug trafficking, and money laundering cases in Southern Arizona.

State Grand Jury

The budget includes \$181,100 and 1.6 FTE Positions from the General Fund in FY 2018 for the State Grand Jury. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,000 from the General Fund in FY 2018 for statewide adjustments.

This line item funds expenses incurred by the Attorney General to investigate and try matters that are under the jurisdiction of the State Grand Jury.

Tobacco Enforcement

The budget includes \$823,900 and 6.6 FTE Positions in FY 2018 for Tobacco Enforcement. These amounts consist of:

General Fund	85,300
CPCF Revolving Fund	738,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	900
CPCF Revolving Fund	7,000

This line item funds the Attorney General’s enforcement of the Master Settlement Agreement (MSA). The MSA is a settlement reached by major tobacco companies and 46 states in 1998 that requires these companies to compensate states annually for Medicaid costs associated with tobacco use. In exchange for annual payments from the tobacco companies, states agree to diligently enforce tobacco tax laws.

In addition to the monies provided in this line item, the budget continues to require AHCCCS to transfer

\$1,200,000 to the Attorney General for MSA enforcement. As a result, the budget includes a total of \$2,023,900 for the Attorney General to enforce the MSA in FY 2018.

Victims’ Rights

The budget includes \$3,761,300 and 6 FTE Positions from the Victims’ Rights Fund in FY 2018 for Victims’ Rights. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,400 from the Victims' Rights Fund in FY 2018 for statewide adjustments.

This line item provides monies to state and local agencies that are required to notify victims during various steps in the criminal justice process. The program includes 7.68% of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders.

Other Issues

This section includes information on the following topics:

- Additional Legislation
- Attorney General Legal Services Cost Allocation Fund
- Interagency Service Agreements Fund
- Consumer Restitution and Remediation Revolving Fund
- Fund Transfer

Additional Legislation

Civil Asset Forfeiture Modifications

Laws 2017, Chapter 149 makes several changes to how civil asset forfeiture cases are decided and how expenditures of civil asset forfeiture revenues are monitored. Currently, assets that are believed to be utilized in the commission of certain crimes can be seized by law enforcement agencies. If the court finds that a preponderance of evidence indicates that the property was utilized in the commission of a crime, the property is forfeited to the attorney prosecuting the case. The AG and every county attorney's office administer an account that receives cash and proceeds from the sale of seized property under the state and federal RICO statutes. The AG and each county attorney divide up revenues amongst participating law enforcement agencies according to the amount of resources and time spent prosecuting and investigating the case. The monies can then be utilized at the recipient agency's discretion for a wide array of law enforcement purposes including equipment, staff, and training.

Laws 2017, Chapter 149 increases the burden of proof for a civil asset forfeiture case to "clear and convincing" evidence. Additionally, the bill:

- Requires recipient agencies to submit applications to the AG or respective county attorney outlining how they plan to expend their funds.
- Mandates that the AG, county attorney, or county board of supervisors approve proposed expenditures.
- Requires the Auditor General to conduct an annual audit of all RICO expenditures.
- Establishes increased reporting requirements for the Arizona Criminal Justice Commission.
- Prohibits law enforcement agencies from participating in the Federal Equitable Sharing Program in order to circumvent state RICO statutes.
- Prohibits the courts from assessing a filing fee in RICO cases.

Any increased administrative costs incurred by the AG as a result of this bill is to be paid from RICO revenues.

Child and Family Advocacy Center Fund

Laws 2017, Chapter 257 establishes the non-appropriated Child and Family Advocacy Center Fund within the AG's office for distribution to child and family advocacy centers and statewide organizations that set standards of best practice and provide support to child and family advocacy centers. Child and family advocacy centers provide victim advocacy, case management, and counseling services to primary and secondary victims of child abuse, domestic violence, sexual assault, elder abuse and homicide. The bill requires that no more than 5% of the fund be retained by the AG for administrative costs and allocates at least 90.25% to grants to child and family advocacy centers and the remaining 4.75% to statewide child and family advocacy center organizations. In order to be eligible for funds, a child and family advocacy center must certify to the AG's Office that it meets certain statutory criteria relating to its ability to provide victim services.

The fund receives revenues from grants, gifts, and monies appropriated to the fund. The bill also requires the AG to report quarterly to the JLBC regarding year-to-date expenditures from the fund. Chapter 257, however, does not appropriate any monies to the fund.

Attorney General Legal Services Cost Allocation Fund

A.R.S. § 41-191.09 requires agencies to pay annually a flat fee to the Attorney General for general legal counsel. The FY 2016 General Appropriation Act set the level of charges at \$1.8 million and specified the charge per agency as required by A.R.S. § 41-191.09. The FY 2017 General

Appropriation Act continued language maintaining these charges as required by A.R.S. 41-191.09.

As session law, the FY 2018 General Appropriation Act reduced the Attorney General legal services charge by \$(4,200) for the Department of Agriculture and \$(6,800) for Geological Survey for both FY 2017 and FY 2018. This brings the charges in line with statutory restrictions on the assessment of a legal service charge against the Universities and the Department of Agriculture as Laws 2016, Chapter 128 moved Geological Survey into the University of Arizona and Laws 2015, Chapter 244 moved

Table 1

FY 2018 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
Arizona Department of Forestry and Fire Management	13,400
Department of Gaming	37,300
Department of Health Services	170,000
Arizona Historical Society	700
Department of Housing	19,300
Department of Insurance	10,500
Department of Juvenile Corrections	9,400
State Land Department	2,100
Department of Liquor, Licenses and Control	11,400
Arizona State Lottery Commission	24,800
Arizona State Parks Board	45,800
State Personnel Board	600
Arizona Pioneers' Home	12,100
Commission on Postsecondary Education	1,800
Department of Public Safety	677,400
Radiation Regulation Authority	3,800
Arizona State Retirement System	69,100
Department of Revenue	4,900
Secretary of State	1,800
State Treasurer	9,200
Department of Veterans' Services	52,700
Total Legal Services Charges	\$1,798,500

the Department of Weights and Measures into the Department of Agriculture. See *Table 1* for a list of agencies and their corresponding FY 2018 Attorney General Legal Services charge.

The FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) eliminated the requirement that the JLBC review the funding sources utilized by departments to pay the Legal Services charge. Statute continues to require the department to annually report to the JLBC on the funding sources utilized to pay the charge. (Please see the FY 2015 Appropriations Report for a more detailed history on legal services charges.)

Interagency Service Agreements Fund

The Attorney General uses the Interagency Service Agreements (ISA) Fund to receive monies from state agencies for legal services. In FY 2016, the Attorney General spent \$14.2 million, or 92.1%, of the \$15.5 million appropriation for the ISA Fund. The appropriated amount included a base appropriation of \$14.8 million and a reserve appropriation of \$800,000. The latter dollar amount became available upon a report by the Attorney General to JLBC.

The FY 2017 budget included \$15.5 million and 134.2 FTE Positions from the ISA Fund with the option to use an additional reserve appropriation of \$800,000 and 11 FTE Positions. The latter dollar amount became available upon a report to JLBC. In November 2016, the Attorney General notified the JLBC that it expected to use its full FY 2017 ISA Fund appropriation as well as 6 FTE Positions of the total 11 FTE Positions and the entire \$800,000 of the reserve appropriation.

The budget increases the FY 2018 ISA Fund appropriation to \$16.5 million and 140.2 FTE Positions and eliminates the \$800,000 and 11 FTE Position reserve appropriation. Additionally, the budget includes a new footnote that exempts the Department of Child Safety's litigation costs from inclusion in the ISA Fund appropriated amount. This is consistent with the current appropriation for the Protective Services Section. These monies are appropriated in the Department of Child Safety budget and do not count against the ISA Fund appropriation.

The Attorney General estimates legal services needs that require a total ISA Fund appropriation of \$17.4 million and 140.2 FTE Positions in FY 2017. The increased need is primarily driven by ISA expansions with the Department of Gaming, Department of Corrections, and Department of Child Safety. Of the \$17.4 million estimated FY 2017 ISA Fund amount, \$1.3 million is attributable to 2 ISAs with the Department of Child Safety. Pursuant to a new

footnote included in the FY 2018 General Appropriation Act, any monies expended from the Litigation Expenses line item in the Department of Child Safety budget will not be counted towards the ISA Fund appropriation.

As a result, assuming no increases to existing ISAs, the net FY 2018 ISA Fund need will be \$16.1 million, which is \$(344,700) less than the FY 2018 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 Revolving Fund 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 Revolving Fund monies, into the General Fund.

The Attorney General is required by several statutes (A.R.S. § 41-192, A.R.S. § 41-192.02, 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.

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.

Fund Transfers

The budget includes a FY 2018 transfer of \$8,172,728 from the monies received by the AG pursuant to a settlement with Moody's Corporation, Moody's Investor Service, Inc., and Moody's Analytics, Inc. for deposit into the General Fund. The AG along with 20 other states and the District of Columbia brought suit against Moody's alleging that the company had misrepresented the creditworthiness of mortgage-backed securities during the lead-up to the great recession. As a result of the settlement, the AG received \$12,672,728 of which, \$2,000,000 was allocated to attorney's fees, \$2,500,000 was designated for restitution to victims, and the remaining \$8,172,728 was eligible for other costs of the investigation/litigation, remediation, or other consumer protection purposes. These remaining funds will be transferred to the General Fund prior to June 30, 2018.

Automobile Theft Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	270,200	317,300	317,300
Employee Related Expenditures	104,100	131,900	137,800
Professional and Outside Services	22,000	19,500	19,500
Travel - In State	3,300	9,000	9,000
Travel - Out of State	4,000	12,500	12,500
Other Operating Expenditures	97,700	122,600	122,600
Equipment	1,700	25,000	25,000
OPERATING SUBTOTAL	503,000	637,800	643,700
SPECIAL LINE ITEMS			
Automobile Theft Authority Grants	4,595,700	4,607,700	0
Arizona Vehicle Theft Task Force	0	0	3,650,000 ^{1/}
Local Grants	0	0	957,700 ^{2/}
Reimbursable Programs	0	50,000	50,000 ^{3/}
AGENCY TOTAL	5,098,700	5,295,500	5,301,400 ^{4/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automobile Theft Authority Fund	5,098,700	5,295,500	5,301,400
SUBTOTAL - Other Appropriated Funds	5,098,700	5,295,500	5,301,400
SUBTOTAL - Appropriated Funds	5,098,700	5,295,500	5,301,400
Other Non-Appropriated Funds	30,000	103,000	103,000
TOTAL - ALL SOURCES	5,128,700	5,398,500	5,404,400

AGENCY DESCRIPTION — The Automobile Theft Authority (ATA) is responsible for analyzing the methods of combating the problem of vehicle theft and promoting successful methods of reducing the number of vehicle thefts in Arizona. The ATA is primarily funded from motor vehicle insurance premium fees.

Operating Budget

The budget includes \$643,700 and 6 FTE Positions from the ATA Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$5,900 from the ATA Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Automobile Theft Authority Grants

The budget includes no funding in FY 2018 for ATA Grants. This amount funds the following adjustments:

Budget Realignment

The budget includes a decrease of \$(4,607,700) from the ATA Fund in FY 2018 to split the Automobile Theft Authority Grants line item into the Arizona Vehicle Theft Task Force line item and Local Grants line item.

- ^{1/} The Automobile Theft Authority shall pay 75% of the Personal Services and Employee-Related Expenses for city, town and county sworn officers who participate in the Arizona Vehicle Theft Task Force. (General Appropriation Act footnote)
- ^{2/} Local Grants shall be awarded with consideration given to areas with greater automobile theft problems and shall be used to combat economic automobile theft operations. (General Appropriation Act footnote)
- ^{3/} The Automobile Theft Authority shall submit a report to the Joint Legislative Budget Committee before expending any monies for the Reimbursable Programs line item. The agency shall show sufficient monies collected to cover the expenses indicated in the report. (General Appropriation Act footnote)
- ^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

This line item funds grants awarded to law enforcement agencies for the Arizona Vehicle Theft Task Force, attorneys dedicated to auto theft prosecution, and other law enforcement activities that reduce auto theft. In FY 2018, these grants will be funded from the Arizona Vehicle Theft Task Force and Local Grants line items. *(Please see the Arizona Vehicle Theft Task Force and Local Grants line item for more information.)*

Arizona Vehicle Theft Task Force

The budget includes \$3,650,000 from the ATA Fund in FY 2018 for the Arizona Vehicle Theft Task Force. This amount funds the following adjustments:

Budget Realignment

The budget includes an increase of \$3,650,000 from the ATA Fund in FY 2018 to split the Automobile Theft Authority Grants line item into the Arizona Vehicle Theft Task Force line item and Local Grants line item.

Monies in this line item are transferred to the Department of Public Safety which oversees the Arizona Vehicle Theft Task Force. The Arizona Vehicle Theft Task Force is a multi-agency group that works specifically on combating auto-theft related crimes. *(Please see the Other Issues section for more information.)*

Local Grants

The budget includes \$957,700 from the ATA Fund in FY 2018 for Local Grants. This amount funds the following adjustments:

Budget Realignment

The budget includes an increase of \$957,700 from the ATA Fund in FY 2018 to split the Automobile Theft Authority Grants line item into the Arizona Vehicle Theft Task Force line item and Local Grants line item.

This line item provides funding for the 4 categories of local grants that the ATA administers: 1) Vertical Prosecution; 2) Law Enforcement; 3) Professional Training; and 4) Public Awareness grants. ATA 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. *(Please see the Other Issues section for more information.)*

Reimbursable Programs

The budget includes \$50,000 from the ATA Fund in FY 2018 for Reimbursable Programs. This amount is unchanged from FY 2017.

This line item funds programs such as training seminars, Arizona Vehicle Theft Task Force expenses and "bait car" projects. This line item is funded from donations and grants from the private sector. Since the inception of this program, only \$25,000 for the reimbursement of salary and operational costs of the Arizona Vehicle Theft Task Force has been expended from this line item.

Other Issues

Additional Legislation

Director's Salary

The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) increases the statutory cap on the director of the ATA's salary from \$75,000 to \$100,000.

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. In FY 2017 these grants were funded from the ATA Grants line item, however, beginning in FY 2018, funding for the grants will be divided between the Arizona Vehicle Theft Task Force and Local Grants line items. *Table 1* displays the allocations of grants for FY 2017 and estimated FY 2018 distributions by recipient and category.

Table 1

ATA Grant Recipients

<u>Recipient</u>	<u>FY 2017</u>	<u>FY 2018 est.</u> ^{1/}
Arizona Vehicle Theft Task Force (DPS)	\$ 3,650,000	\$3,650,000
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 240,700	\$ 235,800
Pima County Attorney	211,300	216,100
Pinal County Attorney	173,700	169,100
La Paz County Attorney	85,600	119,700
Mohave County Attorney	94,300	109,600
Santa Cruz County Attorney	<u>64,600</u>	<u>80,800</u>
Subtotal	\$ 870,200	\$ 931,100
Law Enforcement Grants		
Kingman Police Department	\$ 28,800	\$ -
Maricopa County Sheriff	3,200	-
Quartzite Police Department	<u>31,200</u>	<u>-</u>
Subtotal	\$ 63,200	\$ 1,000
Professional Training Grants		
Arizona Vehicle Theft Task Force (DPS)	\$ 3,000	\$ -
Gilbert Police Department	<u>700</u>	<u>-</u>
Subtotal	\$ 3,700	\$ 1,000
Public Awareness Grants	\$ 0	\$ 23,800
Discretionary Grants	\$ 0	\$ 1,000
TOTAL	\$4,587,100	\$4,607,900 ^{2/}

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

^{2/} Amount does not match actual or appropriated amount due to rounding.

Board of Barbers

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	188,200	181,900	181,900
Employee Related Expenditures	69,800	75,100	79,100
Professional and Outside Services	3,300	39,900	5,000
Travel - In State	13,000	22,000	22,000
Travel - Out of State	0	10,000	10,000
Other Operating Expenditures	31,800	41,800	47,800
Equipment	1,000	0	0
AGENCY TOTAL	307,100	370,700	345,800 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Barbers Fund	307,100	370,700	345,800
SUBTOTAL - Other Appropriated Funds	307,100	370,700	345,800
SUBTOTAL - Appropriated Funds	307,100	370,700	345,800
TOTAL - ALL SOURCES	307,100	370,700	345,800

AGENCY DESCRIPTION — The board licenses barbers, inspects barbering establishments, and investigates violations of sanitation requirements and barbering procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$345,800 and 4 FTE Positions from the Board of Barbers Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Increased Accounting Costs

The budget includes an increase of \$6,000 from the Board of Barbers Fund in FY 2018 for increased accounting charges from the Central Services Bureau, a Department of Administration unit that provides accounting and consulting services for small state agencies.

Remove One-Time Funding

The budget includes a decrease of \$(34,900) from the Board of Barbers Fund in FY 2018 for the elimination of one-time funding for the implementation of an e-licensing software system.

Statewide Adjustments

The budget includes an increase of \$4,000 from the Board of Barbers Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$40,000 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. (Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)

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

Board of Behavioral Health Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	809,500	900,400	900,400
Employee Related Expenditures	315,500	316,700	335,400
Professional and Outside Services	200,000	267,100	267,100
Travel - In State	7,400	7,400	7,400
Travel - Out of State	5,900	6,000	6,000
Other Operating Expenditures	192,300	236,500	236,500
Equipment	1,500	25,000	25,000
AGENCY TOTAL	1,532,100	1,759,100	1,777,800 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Behavioral Health Examiners Fund	1,532,100	1,759,100	1,777,800
SUBTOTAL - Other Appropriated Funds	1,532,100	1,759,100	1,777,800
SUBTOTAL - Appropriated Funds	1,532,100	1,759,100	1,777,800
TOTAL - ALL SOURCES	1,532,100	1,759,100	1,777,800

AGENCY DESCRIPTION — The board certifies and regulates behavioral health professionals in the fields of social work, counseling, marriage and family therapy, and substance abuse counseling. The board also licenses and regulates professionals engaged in the practice of psychotherapy.

Operating Budget

The budget includes \$1,777,800 and 17 FTE Positions from the Board of Behavioral Health Examiners Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$18,700 from the Board of Behavioral Health Examiners Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

State Board for Charter Schools

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	621,500	681,200	681,200
Employee Related Expenditures	239,600	272,500	287,900
Professional and Outside Services	21,000	45,700	45,700
Travel - In State	2,100	5,000	5,000
Travel - Out of State	5,600	5,500	5,500
Other Operating Expenditures	131,600	172,300	172,300
Equipment	2,900	3,000	3,000
AGENCY TOTAL	1,024,300	1,185,200	1,200,600 ^{1/}
FUND SOURCES			
General Fund	1,024,300	1,185,200	1,200,600
SUBTOTAL - Appropriated Funds	1,024,300	1,185,200	1,200,600
Other Non-Appropriated Funds	49,300	29,000	29,000
TOTAL - ALL SOURCES	1,073,600	1,214,200	1,229,600

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 539 charter schools.

Operating Budget

The budget includes \$1,200,600 and 14 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$15,400 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Department of Child Safety

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,057.1	3,193.1	3,193.1 ^{1/}
Personal Services	99,696,500	56,078,100	52,401,300
Employee Related Expenditures	42,133,000	31,625,400	30,995,900
Professional and Outside Services	14,962,000	15,465,500	14,743,900
Travel - In State	2,490,100	2,994,100	2,930,700
Travel - Out of State	454,400	5,000	4,800
Other Operating Expenditures	34,551,000	8,447,400	7,879,200
Equipment	2,212,800	1,181,800	1,181,800
OPERATING SUBTOTAL	196,499,800	115,797,300	110,137,600 ^{2/-11/}
SPECIAL LINE ITEMS			
Additional Operating Resources			
Caseworkers	0	100,617,700	99,845,400
Backlog Privatization	2,700,000	2,700,000 ^{12/}	0
New Case Aides	0	3,060,600	3,077,100
Attorney General Legal Services	21,471,800	25,416,800	25,548,300 ^{13/}
General Counsel	140,100	155,500	156,200
Inspections Bureau	2,486,000	2,470,100	2,480,300
Internet Crimes Against Children	350,000	0	0
Litigation Expenses	2,867,600	0	2,471,200
Office of Child Welfare Investigations	7,371,300	10,611,100	9,648,000
Overtime Pay	12,298,500	8,370,000	8,387,300
Records Retention Staff	595,600	592,900	594,600
Retention Pay	630,600	1,707,000	1,707,000 ^{14/}
Training Resources	5,150,000	5,150,000	9,150,000
Out-of-Home Placements			
Adoption Services	206,008,400	225,698,100	245,498,100
Emergency and Residential Placement	103,294,600	98,900,100	98,900,100 ^{15/}
Foster Care Placement	58,563,900	65,595,500	59,595,500 ^{15/}
Foster Home Recruitment, Study and Supervision	0	0	32,753,600
Kinship Stipends	888,600	1,000,000	2,000,000 ^{16/}
Independent Living Maintenance	4,139,100	4,660,000	4,660,000
Permanent Guardianship Subsidy	11,715,100	12,516,900	12,516,900
Support Services			
DCS Child Care Subsidy	49,339,500	45,159,400	48,159,400
In-Home Preventive Support Services	36,278,400	0	0
Intensive Family Services	8,500,000	0	0
In-Home Mitigation	0	28,988,100	28,988,100 ^{17/}
Preventive Services	0	15,148,300	15,148,300 ^{17/}
Out-of-Home Support Services	207,730,700	198,272,500	154,518,900 ^{15/}
AGENCY TOTAL	939,019,600	972,587,900	975,941,900 ^{18/}
FUND SOURCES			
General Fund	399,165,900	379,179,400	379,790,800
<u>Other Appropriated Funds</u>			
Child Abuse Prevention Fund	1,459,300	1,459,300	1,459,300
Children and Family Services Training Program Fund	207,900	207,100	207,100
Federal Child Care and Development Fund Block Grant	27,000,000	27,000,000	27,000,000
Federal Temporary Assistance for Needy Families Block Grant	149,323,900	149,472,700	149,472,700

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
Risk Management Revolving Fund	2,867,600	0	2,471,200
SUBTOTAL - Other Appropriated Funds	180,858,700	178,139,100	180,610,300
SUBTOTAL - Appropriated Funds	580,024,600	557,318,500	560,401,100
<u>Expenditure Authority Funds</u>			
Child Safety Expenditure Authority	358,995,000	415,269,400	415,540,800
SUBTOTAL - Expenditure Authority Funds	358,995,000	415,269,400	415,540,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	939,019,600	972,587,900	975,941,900
TOTAL - ALL SOURCES	939,019,600	972,587,900	975,941,900

AGENCY DESCRIPTION — The department investigates reports of child abuse and neglect, promotes the safety of a child in a stable family or other out-of-home placement in response to allegations of abuse or neglect, works with law enforcement regarding reports that include criminal conduct allegations, and coordinates services to achieve and maintain permanency on behalf of children in the child welfare system.

- 1/ Includes 1,781.1 GF, 8.4 OF, and 91.7 EA FTE Positions funded from Special Line Items in FY 2018.
- 2/ For the purposes of this section, "backlog case": (1) Means any nonactive case for which documentation has not been entered in the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days and any case that has had an investigation, has been referred to another unit and has had no contact for at least 60 days. (2) Includes any case for which the investigation has been open without any documentation or contact for at least 60 days, any case involving in-home services for which there has been no contact or services authorized for at least 60 days and any case involving foster care in which there has been no contact or any documentation entered in the child welfare automated system for at least 60 days. (General Appropriation Act footnote)
- 3/ For the purposes of this section, "open report" means a report that is under investigation or awaiting closure by a supervisor. (General Appropriation Act footnote)
- 4/ On or before September 30, 2017, and on or before the last day of every calendar quarter through June 30, 2018, the Department of Child Safety shall present a report for review by the Joint Legislative Budget Committee on the progress made in increasing the number of filled FTE Positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home children. The report shall include the number of backlog cases, the number of open reports, the number of out-of-home children and the caseworker workload on March 31, 2016 in comparison to the latest quarter. The report shall provide the number of backlog cases by disposition, including the number of backlog cases in the investigation phase, the number of backlog cases associated with out-of-home placements and the number of backlog cases associated with in-home cases. To determine the caseworker workload, the department shall report the number of case-carrying caseworkers at each field office and the number of investigations, in-home cases, and out-of-home children assigned to each field office. The quarterly report shall provide the same information on the total number of filled FTE Positions as is required by the monthly hiring report. For backlog cases, the department's quarterly benchmark is 1,000 cases as of June 30, 2017 and thereafter. For open reports, the department's benchmark is to have fewer than 8,000 open reports as of June 30, 2017 and thereafter. The open reports benchmark represents the average number of incoming reports for each 2 month period beginning March 1, 2016 through February 28, 2017. For out-of-home children, the department's benchmark is to reduce the number of children in out-of-home care by an average of an additional 2.0% every quarter with respect to the out-of-home care population as of December 31, 2016. It is the intent of the Legislature that the cumulative reduction in the out-of-home care population as compared to the population as of December 31, 2016 be 11.4%, or at or below 15,191 children, on or before June 30, 2018. If the Department of Child Safety has not submitted the quarterly report within 30 days after the last day of the calendar quarter, the Director of the Joint Legislative Budget Committee shall inform the General Accounting Office of the Department of Administration, which shall withhold 2% of the department's operating lump sum quarterly budget allocation until the quarterly report is submitted. (General Appropriation Act footnote)
- 5/ Beginning on the 7th day of the month following the effective date of this act and on the 7th day of each month thereafter through June 30, 2018, the Department of Child Safety shall issue to the Governor, the Chairpersons of the House of Representatives Appropriations and Judiciary and Public Safety Committees and the Senate Appropriations and Health and Human Services Committees and the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting a report on new hires and separations. The report shall include the total number of FTE Positions funded and the total number of FTE Positions filled on the last day of each month. The department shall also delineate new hires and separations by case-carrying caseworkers, hotline staff, caseworkers-in-training, assistant program managers, unit supervisors, case aides, Office of Child Welfare Investigations staff and administrative staff by function. (General Appropriation Act footnote)
- 6/ The amount appropriated for any line item may not be transferred to another line item or the operating budget unless the transfer is reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ Child Safety Expenditure Authority includes all department funding sources excluding the state General Fund, the federal Child Care and Development Fund Block Grant, the federal Temporary Assistance for Needy Families Block Grant, the Child Abuse Prevention Fund and the Children and Family Services Training Program Fund. (General Appropriation Act footnote)
- 8/ On or before September 15, 2017 and March 15, 2018, the Department of Child Safety shall submit a report for review by the Joint Legislative Budget Committee on the department's progress in implementing recommendations included in the Moss-Adams audit. (General Appropriation Act footnote)
- 9/ The Department of Child Safety shall provide training to any new child safety FTE Positions before assigning any client caseload duties to any of these employees. (General Appropriation Act footnote)

Summary

DCS' General Fund spending increases by \$611,400 in FY 2018, or 0.2% from FY 2017. This amount consists of:

- An increase of \$2,000,000 for adoption caseload growth.
- An increase of \$1,000,000 to expand eligibility for the Grandparent Stipend program.
- A decrease of \$(2,700,000) to remove backlog privatization funding.
- An increase of \$311,400 for statewide adjustments.

Operating Budget

The budget includes \$110,137,600 and 1,311.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$57,835,800
Federal TANF Block Grant	16,928,000
Child Safety Expenditure Authority	35,373,800

These amounts fund the following adjustments:

- 10/ It is the intent of the Legislature that the Department of Child Safety use its funding to achieve a 100% investigation rate. (General Appropriation Act footnote)
- 11/ The Department of Child Safety shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 12/ The sum of \$2,700,000 appropriated to the Department of Child Safety in FY 2016 by Laws 2016, Chapter 117, Section 113 for backlog privatization and the sum of \$2,700,000 appropriated to the Department of Child Safety in FY 2017 by Laws 2016, Chapter 117, Section 24 for backlog privatization are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2018. (General Appropriation Act footnote)
- 13/ All expenditures made by the Department of Child Safety for Attorney General legal services shall be funded only from the Attorney General Legal Services line item. Monies in Department of Child Safety line items intended for this purpose shall be transferred to the Attorney General Legal Services line item before expenditure. (General Appropriation Act footnote)
- 14/ The Department of Child Safety shall submit an expenditure plan for review by the Joint Legislative Budget Committee before expending any monies in the Retention Pay line item. It is the intent of the Legislature that monies in the Retention Pay line item be transferred to the department's operating budget in FY 2019. (General Appropriation Act footnote)
- 15/ Of the amounts appropriated for Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement, the Department of Child Safety may transfer up to 10% of the total amount of Federal Temporary Assistance for Needy Families Block Grant monies appropriated to the Department of Economic Security and the Department of Child Safety to the Social Services Block Grant for use in the following line items in the Department of Child Safety: Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement. Before transferring federal Temporary Assistance for Needy Families Block Grant monies to the Social Services Block Grant, the Department of Child Safety shall report the proposed amount of the transfer to the Director of the Joint Legislative Budget Committee. This report may be in the form of an expenditure plan that is submitted at the beginning of the fiscal year and updated, if necessary, throughout the fiscal year. (General Appropriation Act footnote)
- 16/ The amount appropriated for Kinship Stipends shall be used for a stipend of \$75 per month for a relative caretaker, including a grandparent, any level of great-grandparent or any nongrandparent relative, or a caretaker of fictive kinship, if a dependent child is placed in the care of a relative caretaker or caretaker of fictive kinship pursuant to department guidelines. To be eligible for the stipend, the caretaker's income may not exceed 200% of the federal poverty guidelines. Before changing eligibility for the program or the amount of the stipend, the department shall submit a report for review by the Joint Legislative Budget Committee detailing the proposed changes. (General Appropriation Act footnote)
- 17/ It is the intent of the Legislature that the amount appropriated for the Preventive Services and In-Home Mitigation line items be used for families whose children are at risk of out-of-home placement due to abuse, neglect or dependency and that the amount appropriated for the Out-of-Home Support Services line item be used for children in out-of-home placements. (General Appropriation Act footnote)
- 18/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Expenditure Authority Adjustment

The budget includes a decrease of \$(5,800,000) from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Statewide Adjustments

The budget includes an increase of \$140,300 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	38,000
Child Safety Expenditure Authority	102,300

(Please see the Agency Detail and Allocations section.)

Additional Operating Resources

Caseworkers

The budget includes \$99,845,400 and 1,406 FTE Positions in FY 2018 for caseworkers. These amounts consist of:

General Fund	36,332,100
Children and Family Services Training Program Fund	207,100
Federal TANF Block Grant	30,000,000
Child Safety Expenditure Authority	33,306,200

These amounts fund the following adjustments:

Expenditure Authority Adjustment

The budget includes a decrease of \$(1,000,000) from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Statewide Adjustments

The budget includes an increase of \$227,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	132,600
Child Safety Expenditure Authority	95,100

Monies in this line item fund caseworker positions I, II, III and IV, including salary, benefits, other operating expenses and in-state travel.

The Legislature has funded 1,406 caseworkers (direct line staff). *Table 1* displays DCS progress in hiring these staff. As of April 2017, DCS had filled 1,361 of these positions, or (45) fewer filled positions than the funded amount. This amount includes 56 more caseworkers in training than the funded level, which is offset by (101) fewer caseworkers and hotline staff than the funded level.

<u>Direct Line Staff Type</u>	<u>DCS Caseworker Hiring</u>		<u>Difference</u>
	<u>Funded Positions</u>	<u>April 2017</u>	
Case-Carrying Caseworkers	1,190	1,092	(98)
Caseworkers in Training	140	196	56
Hotline Staff	76	73	(3)
Total	1,406	1,361	(45)

Backlog Privatization

The budget includes no funding in FY 2018 for Backlog Privatization. This amount funds the following adjustments:

Remove Backlog Privatization Funding

The budget includes a decrease of \$(2,700,000) from the General Fund in FY 2018 to remove funding for backlog privatization.

Background – Monies in this line item provided funding for private contractors to assist DCS in addressing the backlog of non-active cases. “Backlog case” essentially means any nonactive case for which documentation has not been entered in the child welfare automated system for at least 60 days. On June 2, 2014, DCS reported 13,024 backlog cases.

In March 2017, DCS reported that the backlog of cases had been reduced to below 1,000 cases, meeting the department's benchmark. DCS also reported that the

backlog privatization was only expected to cost \$1,000,000. As a result, in March 2017, JLBC favorably reviewed DCS' request to transfer the remaining backlog privatization resources to the Out-of-Home Support Services line item for contracted permanency programs. A total of \$4,400,000 of backlog privatization monies from FY 2016 and FY 2017 is available for the proposed programs. The FY 2018 General Appropriation Act makes DCS' backlog privatization resources non-lapsing through June 30, 2018 to allow DCS to continue to expend the remaining backlog privatization monies in FY 2018.

New Case Aides

The budget includes \$3,077,100 and 34 FTE Positions in FY 2018 for New Case Aides. These amounts consist of:

General Fund	2,500,000
Child Safety Expenditure Authority	577,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$16,500 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	9,600
Child Safety Expenditure Authority	6,900

Monies in this line item fund 34 new case aides. These positions are in addition to the 256 case aides funded from the operating budget in May 2016.

Attorney General Legal Services

The budget includes \$25,548,300 and 276.2 FTE Positions in FY 2018 for Attorney General Legal Services. These amounts consist of:

General Fund	18,677,200
Federal TANF Block Grant	99,400
Child Safety Expenditure Authority	6,771,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$131,500 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	76,600
Child Safety Expenditure Authority	54,900

Monies in this line item fund the attorneys and support staff in the Attorney General's Protective Services Section

(PSS). Attorney General staff represents DCS in dependency, guardianship, severance and adoption proceedings throughout the state. This line item does not include funding for the Attorney General's defense of DCS in ongoing class action litigation. *(Please see the Litigation Expenses Special Line Item for additional information.)*

General Counsel

The budget includes \$156,200 and 1 FTE Position from the General Fund in FY 2018 for General Counsel. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$700 from the General Fund in FY 2018 for statewide adjustments.

Unlike the Attorney General Legal Services line item which funds representation of DCS in administrative or judicial proceedings, monies in this line item fund the DCS General Counsel, who provides legal advice to the Director.

Inspections Bureau

The budget includes \$2,480,300 and 31 FTE Positions in FY 2018 for the Inspections Bureau. These amounts consist of:

General Fund	1,332,900
Federal TANF Block Grant	549,700
Child Safety Expenditure Authority	597,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$10,200 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	5,900
Child Safety Expenditure Authority	4,300

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.

Litigation Expenses

The budget includes \$2,471,200 from the Risk Management Revolving Fund in FY 2018 for Litigation Expenses. This amount funds the following adjustments:

Continue Litigation Funding

The budget includes an increase of \$2,471,200 from the Risk Management Revolving Fund in FY 2018 to continue to fund DCS' legal expenses in 2 ongoing class action lawsuits.

Background – DCS is currently a defendant in 2 class action lawsuits in federal courts. *B.K. v. McKay* concerns the adequacy of the state's foster care services, including access to health services for foster children, the availability of family foster placements, investigations of maltreatment within foster placements, and practices to maintain family relationships. The Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) are also defendants in the case. The case has not yet gone to trial.

The other case, *A.D. v. Washburn*, involves a challenge by the Goldwater Institute to the federal Indian Child Welfare Act (ICWA). ICWA provides federally recognized Native American tribes with jurisdiction over child welfare proceedings for children enrolled in or eligible for enrollment in a tribe. DCS is a defendant in the case in its capacity as the agency responsible for administering and enforcing ICWA in Arizona. In March 2017, a Federal District Court judge dismissed the case due to the plaintiffs' lack of standing. That ruling is currently on appeal.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$2,867,600 from the Risk Management Revolving Fund in FY 2016 for litigation expenses associated with both cases. The appropriation is non-lapsing until June 30, 2018, and DCS is using the funds to pay for an interagency service agreement (ISA) with the Attorney General for its legal defense, expert witnesses, discovery costs, and other expenses. In September 2016, DCS and the Attorney General's Office amended the ISA to add 2 attorneys and 1 legal assistant for the *B.K. v. McKay* case, resulting in a total of 8 legal staff working on the 2 cases.

Office of Child Welfare Investigations

The budget includes \$9,648,000 and 127 FTE Positions in FY 2018 for the Office of Child Welfare Investigations (OCWI). These amounts consist of:

General Fund	9,546,000
Child Safety Expenditure Authority	102,000

These amounts fund the following adjustments:

Expenditure Authority Adjustment

The budget includes a decrease of \$(1,000,000) from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Statewide Adjustments

The budget includes an increase of \$36,900 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item fund OCWI, which investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As of April 2017, the department had hired 89 of the 127 appropriated FTE Positions.

Overtime Pay

The budget includes \$8,387,300 in FY 2018 for Overtime Pay. This amount consists of:

General Fund	2,604,000
Federal TANF Block Grant	3,859,500
Child Safety Expenditure Authority	1,923,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$17,300 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	10,100
Child Safety Expenditure Authority	7,200

Monies in this line item fund overtime pay for DCS.

Records Retention Staff

The budget includes \$594,600 and 5 FTE Positions in FY 2018 for Records Retention Staff. These amounts consist of:

General Fund	497,900
Child Safety Expenditure Authority	96,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	1,000
Child Safety Expenditure Authority	700

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

Retention Pay

The budget includes \$1,707,000 from the General Fund in FY 2018 for Retention Pay. This amount is unchanged from FY 2017.

This funding provided a one-time stipend of \$1,000 for 18 months of employment and \$3,000 for 36 months of employment. In June 2016, DCS discontinued retention pay for new hires, and plans to allocate the funding in this line to alternative retention efforts. To ensure adequate oversight of these alternative uses, an FY 2018 General Appropriation Act footnote requires DCS to submit an expenditure plan to JLBC for review before expending any monies in the Retention Pay line in FY 2018. The footnote also states that it is the intent of the Legislature that retention pay funding be transferred to the Operating Budget in FY 2019.

Training Resources

The budget includes \$9,150,000 in FY 2018 for Training Resources. This amount consists of:

General Fund	150,000
Child Safety Expenditure Authority	9,000,000

These amounts fund the following adjustments:

Expenditure Authority Adjustment

The budget includes an increase of \$4,000,000 from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Background – 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.

DCS also operates a training academy. The training academy is funded out of the operating budget.

Out-of-Home Placements

Adoption Services

The budget includes \$245,498,100 in FY 2018 for Adoption Services. This amount consists of:

General Fund	77,965,800
Federal TANF Block Grant	20,445,700
Child Safety Expenditure Authority	147,086,600

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$6,300,000 in FY 2018 for caseload growth. This amount consists of:

General Fund	2,000,000
Child Safety Expenditure Authority	4,300,000

Expenditure Authority Adjustment

The budget includes an increase of \$13,500,000 from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Caseload – In FY 2016, a monthly average of 23,190 clients received adoption subsidies; the average monthly cost for FY 2016 was \$741. At that monthly cost, the budget funds 27,609 total placements in FY 2018.

Background – The program subsidizes the adoption of children who otherwise would entail high financial risks to prospective parents because of physical, mental, or

emotional disorders or who would be otherwise difficult to place in adoption because of age, sibling relationship, or racial or ethnic background. The funding provides for maintenance subsidies, special services subsidies, expenditures related to the legal process of adopting a child, and adoption home recruitment costs.

Emergency and Residential Placement

The budget includes \$98,900,100 in FY 2018 for Emergency and Residential Placement. This amount consists of:

General Fund	41,028,000
Federal TANF Block Grant	16,423,000
Child Safety Expenditure Authority	41,449,100

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 528 children received emergency placement services while 2,418 children received residential (non-foster care) placement services. At an average monthly cost of \$2,803 per emergency placement and \$3,079 per residential placement, funding in this line is sufficient for an average monthly caseload of 488 emergency placements and 2,234 residential placements in FY 2018.

Background – The Emergency and Residential Placement line provides funding for 1) short-term placement until a more permanent placement can be arranged and 2) behavioral or other therapeutic residential treatment.

Foster Care Placement

The budget includes \$59,595,500 in FY 2018 for Foster Care Placement. This amount consists of:

General Fund	30,187,500
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	22,434,900

These amounts fund the following adjustments:

Expenditure Authority Adjustment

The budget includes a decrease of \$(6,000,000) from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Caseload – In FY 2016, a monthly average of 7,065 clients received licensed foster care services. The monthly cost ranges from a base rate of \$599 for children under age 12 to \$3,362 for foster children with developmental disabilities. The average monthly cost for FY 2016 was

\$680. At an average monthly cost of \$680 per foster placement, funding in this line is sufficient for an average monthly caseload of 7,303 foster care placements in FY 2018.

On average, another 6,581 children received services from unlicensed foster caregivers, most of whom are relatives. Unlicensed foster caregivers are not eligible for maintenance subsidies funded in this line item, but may receive allowances and other services funded in the Out-of-Home Support Services line item. Unlicensed foster caregivers are eligible for the kinship stipend. *(Please see Kinship Stipends line item for additional information.)*

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.

Foster Home Recruitment, Study and Supervision

The budget includes \$32,753,600 in FY 2018 for Foster Home Recruitment, Study and Supervision. This amount consists of:

General Fund	19,980,800
Child Safety Expenditure Authority	12,772,800

These amounts fund the following adjustments:

New Line Item

The budget includes an increase of \$32,753,600 in FY 2018 to create a new line item for Foster Home Recruitment, Study and Supervision. This amount consists of:

General Fund	19,980,800
Child Safety Expenditure Authority	12,772,800

These funds were transferred out of the Out-of-Home Support services line item.

Background – This line item includes funding for DCS contracts with child welfare licensing agencies that recruit foster families, complete home studies to ensure that foster homes are in compliance with requirements for licensure, and provide ongoing monitoring and oversight of foster homes.

Kinship Stipends

The budget includes \$2,000,000 from the General Fund in FY 2018 for Kinship Stipends. This amount funds the following adjustments:

Stipend Eligibility Expansion

The budget includes an increase of \$1,000,000 from the General Fund in FY 2018 to expand eligibility for the stipend to relative caretakers and fictive kin.

Caseload – In FY 2016, an average of 876 clients received a \$75 monthly stipend. At \$75 monthly, the appropriation is sufficient for 2,222 clients in FY 2018.

Background – The Kinship Stipend program previously provided a monthly stipend per child to an unlicensed foster grandparent or great-grandparent with incomes not exceeding 200% of the Federal Poverty Level. An FY 2018 General Appropriation Act footnote extends eligibility of the program to other relative caretakers as well as caregivers of fictive kinship. "Fictive kin" include caregivers that have a meaningful relationship with the child, but are not related by blood or by marriage. Before changing the amount of the subsidy or the income eligibility limits, DCS must submit a plan of the proposed changes for review by JLBC.

Independent Living Maintenance

The budget includes \$4,660,000 in FY 2018 for Independent Living Maintenance. This amount consists of:

General Fund	2,969,300
Child Safety Expenditure Authority	1,690,700

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 534 clients received independent living maintenance services; the average monthly subsidy for FY 2016 was \$626. At \$626 monthly, the appropriation is sufficient for 620 total placements in FY 2018.

Background – These youths 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. In FY 2016, the program spent \$4,993,000 on non-stipend independent living services.

Permanent Guardianship Subsidy

The budget includes \$12,516,900 in FY 2018 for the Permanent Guardianship Subsidy. This amount consists of:

General Fund	10,573,900
Federal TANF Block Grant	1,943,000

These amounts are unchanged from FY 2017.

Caseload – In FY 2016, a monthly average of 2,569 clients received permanent guardianship subsidies; the average monthly subsidy for FY 2016 was \$381. At \$381 monthly, the funding in this line item is sufficient to fund 2,739 total placements in FY 2018.

Background – The Guardianship Subsidy program supports permanent placements for children who cannot return home and for whom adoption is not an option. The guardianship subsidy is intended to be only a partial reimbursement for expenses involved in the care of the child. The funding only provides for maintenance subsidies, which are provided to assist with the expenses involved in addressing the special needs of the child.

Support Services

DCS Child Care Subsidy

The budget includes \$48,159,400 in FY 2018 for the DCS Child Care Subsidy. This amount consists of:

General Fund	7,000,000
Federal CCDF Block Grant	27,000,000
Child Safety Expenditure Authority	14,159,400

These amounts fund the following adjustments:

Expenditure Authority Adjustment

The budget includes an increase of \$3,000,000 from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Caseload – In FY 2016, a monthly average of 9,903 children received DCS child care; the average monthly subsidy for FY 2016 was \$405. At \$405 monthly, the funding in this line item is sufficient for an average monthly caseload of 9,909 children in FY 2018.

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 Mitigation

The budget includes \$28,988,100 and 1 FTE Position in FY 2018 for In-Home Mitigation. These amounts consist of:

General Fund	15,794,000
Child Abuse Prevention Fund	1,459,300
Federal TANF Block Grant	5,911,200
Child Safety Expenditure Authority	5,823,600

These amounts are unchanged from FY 2017.

Background – Monies in this line item fund interventions for children experiencing maltreatment. The interventions include substance abuse treatment, case management, family support services, reunification services, interpreter services, lab services, parent aide services, counseling, transportation, moderate and intensive in-home services, the housing subsidy, and emergency funding.

Preventive Services

The budget includes \$15,148,300 in FY 2018 for Preventive Services. This amount consists of:

General Fund	4,000,000
Child Safety Expenditure Authority	11,148,300

These amounts are unchanged from FY 2017.

Background – Monies in this line item fund programs targeted at families in need to alleviate identified problems and prevent escalation. The targeted interventions include the Healthy Families and Building Resilient Families programs.

Out-of-Home Support Services

The budget includes \$154,518,900 in FY 2018 for Out-of-Home Support Services. This amount consists of:

General Fund	36,952,400
Federal TANF Block Grant	46,340,100
Child Safety Expenditure Authority	71,226,400

These amounts fund the following adjustments:

Transfer Out

The budget includes a decrease of \$(32,753,600) in FY 2018 to transfer funding for foster home recruitment, study and supervision to its own line item. This amount consists of:

General Fund	(19,980,800)
Child Safety Expenditure Authority	(12,772,800)

Expenditure Authority Adjustment

The budget includes a decrease of \$(11,000,000) from Child Safety Expenditure Authority in FY 2018 to align DCS' expenditure authority with actual use of resources.

Caseload – For March 2017, the department reported 16,931 children were in out-of-home placements.

Backlog Privatization Funding Transfer

The budget includes no net change in FY 2018 to allow DCS to expend backlog privatization resources on contracted permanency programs in FY 2018. Of the \$5,400,000 appropriated for backlog privatization in the FY 2017 General Appropriation Act, DCS expects to expend \$4,400,000 on contracted permanency programs

through June 30, 2018. These resources will no longer be available in FY 2019. (Please see *Backlog Privatization special line item for additional information.*)

Background – The Out-of-Home Support Services line item provides support services for out-of-home clients, in the categories displayed in *Table 2*. This line item and the In-Home Mitigation line item fund Arizona Families F.I.R.S.T. (Please see the *FY 2017 Appropriations Report for more information.*)

The Out-of-Home Support Services line item also provides full coverage of the health expenses of foster children. The General Fund monies in CMDP provide medical, dental, and behavioral health services to children who are not eligible for coverage through the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS also funds behavioral health services for foster children.

Table 2 shows DCS' actual FY 2016 expenditures for in-home, out-of-home, and preventive services. 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.

Table 2

**In-Home and Out-of-Home Support Services
FY 2016 Actual Expenditures by Service Category**

<u>Services</u>	<u>Amount</u>
Parent Aide	\$ 75,248,400
CMDP ^{1/}	42,795,100
Foster Home Recruitment ^{2/}	33,030,100
Transportation	20,858,400
Allowances ^{3/}	11,791,600
Healthy Families	10,715,100
In-Home ^{4/}	9,859,600
Substance Abuse Treatment	9,390,000
Behavioral Health Services	9,045,500
Intensive Family Services	8,505,400
Lab Services	6,689,700
Independent Living	4,993,000
Other	<u>5,533,500</u>
Total	\$248,455,400

- ^{1/} Acute care expenses for children in foster care. Another \$218 million for CMDP behavioral health services is included in the AHCCCS budget in FY 2018.
- ^{2/} Transferred to its own line in FY 2018.
- ^{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/} In-home services can include crisis intervention counseling, marital and family therapy, respite care, home management and nutrition, and linkages with community resources.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Additional Legislation
- Auditor General Report
- Title IV-E Waiver
- Line Item Transfers
- TANF Block Grant
- DCS Reporting Requirements
- ADOA-DCS Start-up Funding

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the Department of Child Safety's General Fund costs are projected to remain unchanged in FY 2019 and FY 2020.

Additional Legislation

Joint Report on Child Welfare

The FY 2018 Human Services BRB (Laws 2017, Chapter 311) continues to require DCS and the Arizona Early Childhood Development and Health Board to submit a joint report to JLBC on or before February 1, 2018 on their

collaborative efforts to address child welfare issues of common concern.

Child and Family Advocacy Centers

Laws 2017, Chapter 257 establishes the Child and Family Advocacy Center Fund to distribute monies to child and family advocacy centers that meet certain statutory requirements. Child and Family Advocacy Centers are multi-disciplinary child abuse investigation and prosecution programs. The fund consists of monies appropriated to the fund and monies from all other sources, and shall be administered by the Attorney General. The Attorney General shall report on a quarterly basis to JLBC on expenditures from the fund.

TANF Cash Assistance

Laws 2017, Chapter 330 expands the definition of a TANF "child-only" case to include foster children under the jurisdiction of a tribal court or tribal child welfare agency. In child-only cases, DES only considers the income of the child for TANF eligibility does not subject these cases to the time limit for receipt of benefits. The bill also removes the "benefit cap" for foster children residing with unlicensed non-relative caretakers. DES estimates that the bill will increase the number of foster children receiving TANF benefits by 230, resulting in additional TANF expenditures of \$375,000 annually.

Warrants for Removal

Laws 2017, Chapter 282 requires DCS to obtain a warrant from the Superior Court before removing a child from the home on and after June 30, 2018. After that time, a child may continue be removed without a warrant if there is probable cause to believe that a child:

- Will imminently become a victim of abuse or neglect in the time it would take to obtain a warrant;
- Is suffering serious physical or emotional injury that can only be diagnosed by a medical doctor or psychologist;
- Is injured as a result of living on premises where dangerous drugs or narcotic drugs are manufactured;
- Has been reported to the department as a missing child at risk of serious harm.

On or before January 1, 2018, DCS shall consult with the Administrative Office of the Courts to develop procedures to implement warrants. The department shall also submit a report to JLBC and the DCS Oversight Committee providing an overview of the new warrant procedures, and shall detail any technological or staffing needs associated with the warrant requirements. *(Please see the Superior Court narrative for additional information.)*

Auditor General Report

The FY 2017 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18), required the Auditor General to report on Department of Child Safety's administrative staffing level on or before February 1, 2017.

Auditors concluded that DCS' administrative staffing levels appear to be reasonable. The audit compared central administrative staffing levels of DCS with the Department of Economic Security (DES), AHCCCS, and the Tennessee Department of Children's Services (TDCS). Auditors found that DCS had a 16% central administrative staffing rate, compared to 10% for DES, 25% for AHCCCS, and 18% for TDCS. The auditors did caution, however, that the value of this analysis is limited, since some central administrative functions of DCS, such as foster home licensing, are too program-specific to be directly compared to other agencies.

The FY 2017 Human Services BRB also required the Auditor General to evaluate DCS' staff recruitment, retention, training, and utilization by September 30, 2017 and the substance abuse treatment program, Arizona Families F.I.R.S.T., by March 31, 2018.

The FY 2018 Human Services BRB further instructs the Auditor General to complete reports on caseworker caseload standards by December 31, 2018 and foster home recruitment and retention by September 30, 2019.

Title IV-E Waiver

In September 2014, the U.S. Department of Health and Human Services (HHS) granted DCS' request for a federal Title IV-E waiver focused on reducing the length of stay for children in congregate care. Congregate care includes emergency shelters, group homes and residential treatment centers. "IV-E" refers to the section of federal law authorizing federal government payment of foster care and related expenses.

As shown in *Table 8*, 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 began operating under the waiver in July 2016.

Line Item 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. However, given the magnitude of line item transfers made by DCS in FY 2015 and FY 2016, a FY 2017 General Appropriation Act footnote requires DCS to submit proposed line items to JLBC for review prior to executing transfers. The budget continues this footnote in FY 2018.

Table 3 below shows the transfers of General Fund monies made by DCS between line items in FY 2016. DCS transferred a total of \$7.8 million in FY 2016. The Out-of-Home Support Services line item received \$6.6 million of these transfers, and the operating budget received another \$1.1 million. The largest decreases from were Adoption Services and Office of Child Welfare Investigations (OCWI).

The largest difference between FY 2016 actual expenditures net of transfers and the FY 2017 appropriation is in the Out-of-Home Support Services line item. The FY 2017 General Fund appropriation of \$56.9 million for Out-of-Home Support Services is \$(31.8) million less than actual General Fund spent in that line item in FY 2016. Most of the decrease is associated with the removal of one-time funding for addressing the backlog, eliminating the payment deferral, and the FY 2016 lump-sum supplemental.

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%. The budget continues a footnote in the General Appropriation Act that 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 2018. The transfer to SSBG provides additional funding flexibility to DCS.

DCS Reporting Requirements

DCS provides a number of reports to the Governor and Legislature, including:

- Semi-Annual Child Welfare Report - tracks program performance measures
- Semi-Annual Financial & Program Accountability Report - tracks program performance measures
- Monthly Program Report - tracks program performance measures
- 30th of the Month Report - focuses on potential funding shortfalls during the current fiscal year
- Healthy Families Annual Report - home visitation program for at-risk families with young children
- Report on bridge loan elimination
- Report on backlog privatization
- Reports on administrative staff
- Monthly report on hiring and separations

Table 3

DCS FY 2016 General Fund Line Item Transfers

	FY 2016 Appropriation ^{1/}	Line Item Transfer	FY 2016 Actuals	FY 2017 Appropriation
Operating Budget ^{2/}	\$91,349,800	\$1,091,200	\$92,441,400	\$93,997,300
OCWI	9,562,700	(3,100,000)	6,462,600	9,509,100
General Counsel	156,100	(14,800)	140,100	155,500
Retention Pay	1,707,000	(1,076,400)	630,600	1,707,000
Adoption Services	69,965,800	(3,200,000)	66,765,800	75,965,800
Emergency and Residential Placement	43,328,000	100,000	43,428,000	41,028,000
Permanent Guardianship Subsidy	10,472,300	(320,000)	9,972,100	10,573,900
Grandparent Stipends	1,000,000	(100,000)	888,600	1,000,000
Out-of-Home Support Services	<u>82,304,900</u>	6,620,000	<u>88,735,200</u>	<u>56,933,200</u>
GF Subtotal	309,846,600		309,464,400	290,869,800
All Other Line Items	<u>92,566,200</u>		<u>92,569,100</u>	<u>88,309,600</u>
GF Grand Total	\$402,412,800		\$402,033,500	\$379,179,400

^{1/} FY 2016 Appropriation includes the elimination of the payment deferral and the lump-sum supplemental allocated across line items.

^{2/} FY 2017 Appropriation figures include Operating budget and Caseworkers line item.

- Report on potential deficiencies related to DCS' financial processes
- Report on Housing Assistance
- Independent Living Report
- Review of foster home requirements
- Behavioral Health Report
- Quarterly Benchmark Report - tracks caseworker hiring, backlog elimination, open reports, foster children and caseworker workload
- Summary of DCS Grants
- Community Advisory Committee Quarterly Report
- Joint Investigations Report
- OCWI Line Item Fund Transfer Report
- CHILDS Independent Third-Party Consultant Report
- Kinship Foster Care Report
- Arizona Families F.I.R.S.T. Report
- Expedited Substance Abuse Treatment Fund Report
- Report on the Implementation of Auditor General Recommendations
- Intensive Family Services Expenditure Plan

In addition to these reports, DCS provides a number of different reports to the federal government and other groups, such as Casey Family Programs and Chapin Hall.

Laws 2017, Chapter 282 requires DCS to post a consolidated reporting proposal on the department's website, hold stakeholder meetings and identify potential new reporting metrics. DCS shall also submit a report to JLBC and the DCS Oversight Committee on or before December 31, 2017 describing the implementation of the new reporting structure, the outcome of stakeholder meetings, and any new reporting metrics that are identified.

ADOA-DCS Start-Up Funding

The Arizona Department of Administration (ADOA) was appropriated \$19,500,000 from the General Fund in FY 2015 on a one-time basis for costs associated with the establishment of DCS. Before expending these monies, DCS was required to submit an expenditure plan for review by JLBC. *Table 4* above shows DCS' plans for expending these monies. Of the \$19,500,000 appropriation to ADOA, \$11,096,100 was released to DCS in FY 2015 and \$8,403,900 was released in FY 2016. No additional funding was allocated for DCS start-up costs in the FY 2017 budget or the FY 2018 budget. *(Please refer to the FY 2017 Appropriations Report for additional information.)*

Table 4

Transition Appropriation by Purpose

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

Table 5

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

Staffing	FY 2013/2014	FY 2015	FY 2015 SS	FY 2016	FY 2017	FY 2018	Total (FY 18 Above FY 12)
Child Safety Staff (caseworkers & others)	\$17.7 ^{2/}	\$15.3	\$6.2	(\$1.2) ^{3/}	\$2.5	\$0.0	\$40.5
Central Administrative Staff	0.0	0.0	0.0	0.0	6.7	0.0	6.7
Child Safety Staff Pay Raise/Retention Stipend	1.0	0.0	1.7	0.0	0.0	0.0	2.7
OCWI Staff	2.3	1.8	5.3	0.1	0.0	0.0	9.5
Records Retention Staff	0.0	0.5	0.0	0.0	0.0	0.0	0.5
Child Safety Legal Staff	1.5	see '16	0.0	1.0	5.0	0.0	7.5
Internal Legal Counsel	0.0	0.0	0.2	0.0	0.0	0.0	0.2
Inspections Bureau	0.0	0.0	2.2	(0.2) ^{3/}	0.0	0.0	2.0
Residential Placements							0.0
Congregate Care	13.0	0.0	0.0	(5.1) ^{4/}	8.0	0.0	15.9
Congregate Care Backfill	0.0 ^{5/}	0.0	6.5	0.0	0.0	0.0	6.5
Foster Care	4.8	0.0	0.0	2.7 ^{4/}	2.3	0.0	9.8
Grandparent Stipends	1.0	0.0	0.0	0.0	0.0	1.0	2.0
Permanent Guardianship	2.4	0.0	0.0	1.0	0.1	0.0	3.5
Adoption Services	19.9	6.0	0.0	7.0	6.0	2.0	40.9
Services							
Intensive Family Services/In-Home Mitigation	5.0	3.5	0.0	0.0	5.0	0.0	13.5
Support Services	4.0	5.6	0.0	4.4 ^{4/}	12.5	0.0	26.5
Child Care	9.0	0.0	0.0	0.0	2.0	0.0	11.0
Backlog							
Privatization	0.0	0.0	0.0	2.7	0.0	(2.7)	0.0
Action Determination	0.0	0.0	0.2	(0.2)	0.0	0.0	0.0
Investigation	0.0	0.0	4.2	(4.2)	0.0	0.0	0.0
Out-of-Home Care Placement	0.0	0.0	6.8	(2.3)	0.0	0.0	4.5
Out-of-Home Care Services	0.0	0.0	7.6	(2.5)	0.0	0.0	5.1
In-Home Care Services	0.0	0.0	4.2	(1.4)	0.0	0.0	2.8
Other							
Training Resources	0.0	0.0	0.2	0.0	0.0	0.0	0.2
Internet Crimes Against Children	0.0	0.0	0.4	0.0	(0.3)	0.0	0.1
Partial Deferral Payoff	0.0	0.0	3.0	(3.0)	0.0	0.0	0.0
Federal Funds Backfill	18.5	0.0	0.0	0.0	0.0	0.0	18.5
Contingency	10.5	0.0	0.0	0.0	0.0	0.0	10.5
Statewide Adjustments	0.0	0.0	0.0	(0.7)	(0.7)	0.3	(1.1)
Eliminate Payment Deferral	0.0	0.0	0.0	11.0	(11.0)	0.0	0.0
Lump Sum Supplemental	0.0	0.0	0.0	32.3	(32.3)	0.0	0.0
TANF Swap	0.0	0.0	0.0	0.0	(4.0)	0.0	(4.0)
Non-General Fund Solutions	0.0	0.0	0.0	0.0	(25.0)	0.0	(25.0)
Total - DCS Agency	110.8	32.7	48.7	41.4	(23.2)	0.6	210.8
Other Agency Funding							
New Agency One-Time Funding (ADOA) ^{6/}	0.0	19.5	0.0	(19.5)	0.0	0.0	0.0
CHILDS Replacement (ADOA)	0.0	5.0	0.0	(5.0)	4.6	0.4	5.0
Judiciary - Dependency Caseload Growth	0.0	0.0	0.0	0.0	3.0	(3.0)	0.0
Judiciary - Warrants	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Auditor General	0.0	0.0	0.3	(0.3)	0.0	0.0	0.0
Total ^{7/}	\$110.8	\$57.1	\$48.8	\$16.6	(\$15.6)	(\$1.9)	\$215.8

^{1/} Each year shows the Increase over the prior fiscal year. The FY 2015, FY 2016 and FY 2017 amounts are General Fund, while the FY 2014 and FY 2013 amounts include General Fund and Long Term Care System Fund.

^{2/} The \$5.7 million supplemental (Laws 2014, 2nd Regular Session) is not shown so as not to double count the funding.

^{3/} Represents elimination of one-time equipment funding.

^{4/} Foster care savings policy of \$(2.0) million consists of \$(5.1) million in congregate care, \$2.7 million in foster care, and \$0.4 million in support services.

^{5/} The \$5.1 million supplemental (Laws 2014, 2nd Special Session) is not shown so as not to double count the funding.

^{6/} Total appropriation of \$25.0 million subsequently reduced to \$19.5 million.

^{7/} Numbers do not add due to rounding.

^{8/} Excludes \$0.8 million for the Legislative Council Ombudsman.

Table 6

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

	FY 2013	Part 1 FY 2014 1/	Part 2 FY 2014 2/	FY 2015	FY 2015 SS 3/	FY 2017	Total Change 4/
Central Administrative Staff	-	-	-	-	-	60	60
Caseworkers/Hotline Staff	50	93	126	32	54	-	355
OCWI Staff	28 5/	-	-	20	73	-	121
Assistant Program Managers	4	2	4	-	2	-	12
Unit Supervisors	-	16	20	6	10	-	52
Case Aides	-	23	30	9	15	-	77
Records Retention Staff	-	-	-	5	-	-	5
AG Legal Staff via DCS	-	22	-	-	-	42	64
AG Legal Staff (Direct) 6/	-	-	-	12	-	-	12
In-House Counsel	-	-	-	-	1	-	1
Inspections Bureau	-	-	-	-	21	-	21
Support Staff/Other	-	16	12	3	9	34	74
Subtotal - New	82	172	192	87	185	136	854
Transferred Staff	-	-	-	-	99 7/	-	99
Subtotal - New and Transferred	82	172	192	87	284	136	953
Total Child Safety Staff	N/A	N/A	N/A	N/A	N/A	N/A	3,193

1/ Represents original FY 2014 budget.

2/ Represents FY 2014 supplemental in 2nd Regular Session.

3/ Reflects 2nd Special Session.

4/ Total change in FTE Positions since FY 2012. No new positions were added in FY 2018.

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 7

**Department of Child Safety Total Fund Expenditures 1/
(\$ in Millions)**

Fiscal Year	Expenditures	Reports of Child Maltreatment
2008	\$509.9	34,989
2009	\$487.6	33,186
2010	\$448.9	33,839
2011	\$478.8	34,904
2012	\$561.2	40,517
2013	\$625.8	44,119
2014	\$710.9	45,368
2015	\$846.2	51,075
2016 Actual	\$939.0	49,135
2017 Estimate	\$972.6	TBD
2018 Appropriation	\$977.4	TBD

1/ Total Fund expenditures include monies directly appropriated to DCS. Excludes monies appropriated to the Arizona Department of Administration (ADOA) for one-time agency startup funding and CHILDS replacement.

Table 8

Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source	Operating Budget	Caseworkers	New Case Aides	Attorney General	Inspections		OCWI	Overtime Pay	Records Retention	Training Resources
					Bureau	Bureau				
AHCCS	\$9.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
AIPP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPTA	0.4	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
CBCAP	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee IL	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SSBG	0.0	5.5	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
IV-B I CWS	1.5	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPCV	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPSS	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-E Adoption	2.9	2.0	0.0	0.7	0.1	0.0	0.0	0.2	0.0	0.0
IV-E Foster Care	14.0	10.3	0.1	3.2	0.3	0.0	0.0	0.8	0.1	9.0
Over/(Under) Allocated Authority	7.0	9.2	0.5	1.5	0.0	0.1	0.0	0.9	0.0	0.0
Total	\$35.3	\$33.3	\$0.6	\$6.8	\$0.6	\$0.1	\$0.1	\$1.9	\$0.1	\$9.0

Table 8 (Continued)

Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source	Adoption Services	Emergency & Residential	Foster Care	Foster Care HRSS	Independent Living	Child Care	In-Home Mitigation	Preventive Services	Out-of-Home Services	Total
AHCCCS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	43.0	52.1
AIPP	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
CAPTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
CBCAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.7
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Chafee IL	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.0	3.5	5.3
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0	6.1
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0	4.4
SSBG	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.7
IV-B I CWS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.8
IV-B II FPCV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
IV-B II FPSS	1.5	0.0	0.0	0.0	0.0	0.0	4.4	0.0	0.0	6.4
IV-E Adoption	141.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	147.0
IV-E Foster Care	0.0	34.6	22.4	12.3	0.0	14.1	0.0	0.0	15.5	136.7
Over/(Under) Allocated Authority	3.9	1.0	0.0	0.5	0.1	0.1	1.4	0.0	8.7	35.0
Total	147.1	41.4	22.4	12.8	1.7	14.2	5.8	11.1	71.2	415.5

State Board of Chiropractic Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	174,400	220,200	220,200
Employee Related Expenditures	62,900	65,400	69,400
Professional and Outside Services	48,300	40,600	40,600
Travel - In State	0	3,600	3,600
Travel - Out of State	3,000	5,400	5,400
Other Operating Expenditures	102,900	89,900	89,900
Equipment	9,200	26,000	26,000
AGENCY TOTAL	400,700	451,100	455,100 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Chiropractic Examiners Fund	400,700	451,100	455,100
SUBTOTAL - Other Appropriated Funds	400,700	451,100	455,100
SUBTOTAL - Appropriated Funds	400,700	451,100	455,100
TOTAL - ALL SOURCES	400,700	451,100	455,100

AGENCY DESCRIPTION — The board licenses, investigates, and regulates chiropractors who practice a system of therapy in which disease is considered the result of neural malfunction. Manipulation of the spinal column and other structures is the preferred method of treatment.

Operating Budget

The budget includes \$455,100 and 5 FTE Positions from the Board of Chiropractic Examiners Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$4,000 from the Board of Chiropractic Examiners Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Citizens Clean Elections Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	4,343,300	10,423,400	10,423,400
TOTAL - ALL SOURCES	4,343,300	10,423,400	10,423,400

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. See Table 2 for available revenues and expenditures.

Table 1
Clean Elections Fund Transfers to General Fund

<u>Fiscal Year</u>	<u>Transfer</u>
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

Table 2

	<u>FY 2016 Actual</u>	<u>FY 2017 Estimate</u>
Funds Available		
Balance Forward	\$22,821,300	\$26,313,300
Revenue:		
Court Assessments	\$7,790,200	\$7,790,200
Qualifying Contributions	44,700	45,500
\$5 Check Off Box	<u>400</u>	<u>0</u>
Total Revenue	\$7,835,300	\$7,835,700
Total Funds Available	\$30,656,600	\$34,149,000
Expenditures:		
Personal Services	\$511,400	\$557,000
Employee Related Expenditures	168,200	170,000
Professional & Outside Services	2,894,300	4,208,300
Travel - In State	6,300	6,500
Travel - Out of State	1,500	5,000
Candidate Funding	317,500	1,805,000
Other Operating Expenses	389,100	3,649,100
Capital Equipment	30,100	0
Non-Capital Equipment	<u>24,900</u>	<u>22,500</u>
Total Funds Expended	\$4,343,300	\$ 10,423,400
Transfer to General Fund	\$ 0	\$ 0
Year-End Fund Balance	\$26,313,300	\$23,725,600

Arizona Commerce Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET	10,000,000	10,000,000	10,000,000 ^{1/}
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	16,500,000	11,500,000	11,500,000 ^{1/}
Mexico City Trade Office	300,000	300,000	300,000
AGENCY TOTAL	26,800,000	21,800,000	21,800,000
FUND SOURCES			
General Fund	26,800,000	21,800,000	21,800,000
SUBTOTAL - Appropriated Funds	26,800,000	21,800,000	21,800,000
Other Non-Appropriated Funds	7,117,600	8,577,800	7,751,000
Federal Funds	3,402,300	1,518,400	1,518,400
TOTAL - ALL SOURCES	37,319,900	31,896,200	31,069,400

AGENCY DESCRIPTION — The Arizona Commerce Authority (ACA) promotes economic, community, and workforce development. The Authority's duties include: support statewide for business expansion and attraction; workforce development and job training; online assistance for new business start-ups; tax credit administration.

Operating Budget

The budget includes \$10,000,000 from the General Fund in FY 2018 for the operating budget. This amount is unchanged from FY 2017.

Of the \$10,000,000 FY 2016 operations allocation, ACA expended \$9,227,100 in FY 2016.

Arizona Competes Fund Deposit

The budget includes \$11,500,000 from the General Fund in FY 2018 for deposit into the Arizona Competes Fund. This amount is unchanged from FY 2017.

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 received a non-appropriated deposit of \$3,500,000 in lottery revenues and an average of \$1,600,000 in Corporation Commission securities fees for a total annual deposit of \$26,600,000. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12), reduced the General Fund deposit by \$5,000,000 in FY 2016 to \$16,500,000. In FY 2017 and each year thereafter, the deposit is reduced by \$(10,000,000) to \$11,500,000.

Laws 2016, Chapter 372 made several changes to the Arizona Competes Fund including:

- Redirecting the Corporation Commission filing fees to the newly-created Office of Economic Opportunity.
- Extending the lapsing date for the Arizona Competes Fund to July 1, 2018.
- Mandating that at least 30% of monies appropriated to the Arizona Competes Fund be used for rural and small business grants. Laws 2017, Chapter 336 further amends statute to require that 30% of this amount, up to \$1,000,000, be reserved for microenterprise development. Microenterprises are businesses that employ 10 or fewer employees including start-ups, home-based businesses, and self-employed businesses.
- Requiring that a further 25% of the monies appropriated to the Arizona Competes Fund be reserved for businesses not located in Maricopa County with preference given to a county located on the Arizona-Mexico border, a county in which a military facility is located, or projects on tribal lands. The 25% allocation is no longer reserved for these purposes after March 31 of each fiscal year.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. Of the \$141,408,800 deposited into the Arizona

^{1/} Pursuant to A.R.S. § 43-409, \$21,500,000 of state General Fund withholding tax revenues is allocated in FY 2018 to the Arizona Commerce Authority, of which \$10,000,000 is credited to the Arizona Commerce Authority Fund established by A.R.S. § 41-1506, and \$11,500,000 is credited to the Arizona Competes Fund established by A.R.S. § 41-1545.01. (General Appropriation Act footnote)

Competes Fund from FY 2012 through March 2017, ACA has expended \$28,970,100 as of March 31, 2017. The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) included a transfer of \$75,000,000 from the fund balance in FY 2016. *(Please see Other Issues section for list of award recipients.)*

Mexico City Trade Office

The budget includes \$300,000 from the General Fund in FY 2018 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2017.

Monies in this line item are used to lease a 2-story building in central Mexico City that serves as the Mexico City Trade Office and hire 4 contract workers to run the office. In the past, ACA partnered with the City of Phoenix, City of Tucson, the Maricopa Association of Governments, and Visit Phoenix (a non-profit) to administer the office. In FY 2015, the other partners provided \$135,000 to help fund the office. In FY 2016, however, no additional funds were provided. Currently, ACA does not fund any other trade offices.

Other Issues

Additional Legislation

Job Training Fund Extension

The FY 2018 Budget Procedures BRB (Laws 2017, Chapter 307) retroactively extends the repeal date of the Arizona Job Training Fund from July 1, 2017 to June 30, 2022. The bill also requires that all encumbrances of monies in the fund be made by December 31, 2020 and that any monies remaining in the fund as of the repeal date be transferred to the General Fund. The fund will only receive revenues from interest on the fund balance as the Job Training tax was repealed effective December 31, 2015. As a result, ACA will only be expending the existing fund balance which was \$30.5 million as of May 23, 2017, plus any interest received through 2020. In FY 2016 ACA encumbered \$6.6 million.

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
- Healthy Forest Enterprise Incentives Program
- International Operations Center Incentives
- Job Training Program and Fund *(Eliminated effective June 30, 2022)*
- Military Reuse Zone Tax Credit
- Qualified Energy Conservation Bonds
- Qualified Facility Tax Credit
- Quality Jobs Tax Credit
- Renewable Energy Tax Incentive Program Applications
- Research and Development Refundable Tax Credit
- Small Business Investment Tax Credit
- Solar Tax Credit

Prior to FY 2016, ACA received \$31.5 million in income tax withholding from the General Fund annually. Of that amount, \$10.0 million was deposited into the Arizona Commerce Authority Fund for ACA operational expenses and \$21.5 million was deposited into the Arizona Competes Fund. Beginning in FY 2016, the Arizona Competes Fund deposit was reduced to \$16.5 million with a further reduction to \$11.5 million being implemented in FY 2017 and beyond. In accordance with statute, the General Appropriation Act allocates these monies to ACA. Both funds are non-appropriated.

Additionally, ACA receives an annual deposit of \$3.5 million in lottery revenues to the Arizona Competes Fund. Combining General Fund and lottery revenues, ACA will have \$15.0 million in new resources in FY 2018 to provide grants to help attract, expand, or retain businesses in Arizona.

Arizona Competes Fund Expenditures

A.R.S. § 41-1545.01 established the Arizona Competes Fund beginning in FY 2012 with an annual deposit of \$21.5 million in income tax withholding monies from the General Fund and an additional appropriation of \$3.5 million in lottery tax revenues. Due to subsequent statutory changes, the General Fund deposit was reduced to \$16.5 million in FY 2016 and was further reduced to \$11.5 million in FY 2017 and beyond. The fund also received revenues from Corporation Commission securities fees which have averaged approximately \$1.6 million per year. In FY 2017 these fees were permanently

redirected to the Office of Economic Opportunity Operations Fund.

Through March 31, 2017, the Arizona Competes Fund received \$141.4 million in total revenues, but, due to a \$75.0 million transfer in FY 2016, net revenues to the fund total \$66.4 million. Of these revenues, ACA has made \$47.9 million in commitments and expended \$29.0 million through March 31, 2017 with recipients displayed in *Table 1* and expenditures by award year displayed in *Table 2*. 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.

Table 1
Arizona Competes Fund Expenditures through March 31, 2017

<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	1,300,000
GoDaddy, Inc.	1,500,000
JDA Software, Inc.	353,500
Maverick Healthcare Services, Inc.	783,900
Northern Trust Corporation	1,540,000
Silicon Valley Bank Financial Services	3,010,000
Ulthera, Inc.	548,400
Zoc Doc	15,000
Total Competes Fund Grants	\$11,050,800
Arizona Innovation Challenge Grants	
Agave Semiconductor LLC	\$250,000
Allbound, Inc.	100,000
Amber Alert GPS	250,000
AniCell Biotech, LLC	150,000
appsFreedom, Inc.	250,000
Athena Wireless Communications, Inc.	250,000
Beacon Biomedical, Inc.	236,500
BeckonCall, Inc.	246,900
CampusLogic, Inc.	225,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
CleanTechnology, Inc.	150,000
Clear Demand, Inc.	250,000
ClearVoice Inc.	210,000
Contatta, Inc.	245,000
Deliver IT, Inc.	250,000
EndoVantage	250,000
eVisit, LLC	250,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Iris PR Management, Inc.	250,000
Iron Horse Diagnostics, Inc.	250,000
Kutta Radios, Inc.	249,500
LawLytics	250,000
MaxQ Technology LLC	250,000
Nasseo, Inc.	250,000
NuvOx Pharma, LLC	250,000
Paraffin International, Inc.	215,000
ParkX, LLC	250,000
Photon Medical Communications LLC	250,000
Picomic	250,000
Post.Bid.Ship., Inc.	232,000
Pure Chat, Inc.	250,000

Table 1 (cont.)

<u>Recipients</u>	<u>Total</u>
Rbar Organic, LLC	250,000
Recoleta Partners LLC	250,000
ReplyBuy, Inc.	250,000
RevolutionParts, Inc.	250,000
RightBio Metrics Inc.	250,000
Salutaris Medical Devices, Inc.	150,000
Serious Integrated, Inc.	250,000
Smart Brain Aging, Inc.	150,000
Smart Clinic, LLC	175,000
Spotlight Software, LLC	172,500
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	250,000
The Medical Memory, LLC	225,000
Triton Microtechnologies	250,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	250,000
Yolia Health, Inc.	248,000
Total Arizona Innovation Challenge Grants	\$11,932,800
Rural Economic Development Grants	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Coolidge	369,200
Flagstaff	195,000
Globe	265,500
Greater Yuma Economic Development Corporation	432,500
Kingman	170,000
Maricopa	250,000
Mohave County	500,000
Nogales	500,000
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Prescott Valley	500,000
Sahuarita	250,000
Verde Valley Wine Consortium, Inc.	255,300
Wickenburg	250,000
Williams	250,000
Winslow	214,100
Yuma	296,300
Yuma County	500,000
Total	\$5,986,500
Total Arizona Competes Fund Grants	\$28,970,100

Table 2
Arizona Competes Fund Expenditures by Award Year

<u>Award Year</u>	<u>Expenditures</u>
FY 2012	\$6,445,500
FY 2013	7,638,400
FY 2014	6,952,700
FY 2015	5,571,700
FY 2016	2,361,800
FY 2017	0
Total	\$28,970,100

Arizona Community Colleges

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	5,206,000	4,670,000	4,589,600
Coconino	1,771,200	1,756,400	1,731,100
Gila	368,100	315,200	298,400
Graham	2,175,600	2,249,700	2,288,300
Mohave	1,524,000	1,315,000	1,195,500
Navajo	1,582,100	1,606,000	1,649,000
Pinal	1,903,500	1,724,700	1,621,400
Santa Cruz	57,300	81,200	96,800
Yavapai	890,300	800,200	639,400
Yuma/La Paz	2,702,500	2,690,100	2,622,100
<i>Subtotal - Operating State Aid</i>	18,180,600	17,208,500	16,731,600
STEM and Workforce Programs State Aid			
Cochise	1,150,000	1,008,200	986,400
Coconino	423,200	418,000	409,000
Gila	160,900	142,500	136,500
Graham	569,500	595,200	609,000
Mohave	577,700	505,200	462,500
Navajo	345,500	353,700	369,100
Pinal	96,500	96,500	96,500
Santa Cruz	53,100	61,400	67,000
Yavapai	805,700	774,400	717,000
Yuma/La Paz	867,300	864,000	845,500
<i>Subtotal - STEM and Workforce Programs State Aid</i>	5,049,400	4,819,100	4,698,500
Equalization Aid			
Cochise	4,332,800	4,878,400	5,210,200
Graham	14,538,800	14,695,800	15,028,600
Navajo	5,849,400	6,081,500	6,672,100
<i>Subtotal - Equalization Aid</i>	24,721,000	25,655,700	26,910,900
Rural County Allocation	2,523,400	2,730,600	2,596,700 ^{1/}
Rural County Reimbursement Subsidy	1,273,800	1,273,800	1,273,800 ^{2/}
Tribal Community Colleges	2,625,000	2,625,000	2,625,000 ^{3/}
Additional Gila Workforce Development Aid	0	0	250,000
AGENCY TOTAL	54,373,200	54,312,700	55,086,500^{4/}
FUND SOURCES			
General Fund	54,373,200	54,312,700	55,086,500
SUBTOTAL - Appropriated Funds	54,373,200	54,312,700	55,086,500
Other Non-Appropriated Funds	18,166,000	18,991,700	18,991,700
TOTAL - ALL SOURCES	72,539,200	73,304,400	74,078,200

AGENCY DESCRIPTION — The Arizona community college system is comprised of 10 college districts and 2 provisional districts. Arizona's community colleges provide programs and training in the arts, sciences and humanities, and vocational education leading to an Associate's degree, Certificate of Completion, or transfer to a Baccalaureate degree-granting college or university.

Operating State Aid

The budget includes \$16,731,600 from the General Fund in FY 2018 for Operating State Aid. This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of \$(476,900) from the General Fund in FY 2018 to fund the statutory formula for Operating State Aid.

This amount funds statutory formula costs for a (830), or (2.8%), decrease in Full Time Student Equivalent (FTSE) students in rural community colleges (see Table 1). The (830) net FTSE decrease consists of a (790) FTSE decrease in non-dual enrollment students and a (40) 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. The FY 2018 Higher Education BRB (Laws 2017, Chapter 310), however, restores Maricopa and Pima County's eligibility for Operating State Aid in permanent law. A session law provision, however, suspends the formula for FY 2018. Maricopa and Pima County will receive no Operating State Aid in FY 2018.

The full formula funding for Maricopa and Pima County cannot be calculated for FY 2018. The Operating State Aid formula adjusts the prior year's appropriation based on the changes in FSTE enrollment count. Maricopa and Pima County have not received Operating State Aid since FY 2015.

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

- 1/ A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost of students attending community colleges who are from counties that are not part of an established community college district, and then the state will withhold these counties' sales tax revenues to offset that cost. In FY 2018, that amount is estimated to be \$2,596,700. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 2/ Of the \$1,273,800 appropriated to the Rural County Reimbursement Subsidy line item, Apache County receives \$699,300 and Greenlee County receives \$574,500. (General Appropriation Act footnote)
- 3/ A.R.S. § 42-5031.01 directs the State Treasurer to annually transmit to the tribal colleges 10% of Transaction Privilege Tax (TPT) revenues collected from sources located on the reservation, or \$1,750,000, whichever is less, as well as 5% of TPT revenues collected on the reservation, or \$875,000, whichever is less, to a technical college on the same reservation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 4/ General Appropriation Act funds are appropriated as District-by-District Special Line Items.

Table 1

Community College Enrollment

District	FY 2015 FTSE	FY 2016 FTSE	Percentage Change
Cochise	6,338	6,195	(2.3)%
Coconino	2,066	2,007	(2.9)%
Gila	702	667	(5.0)%
Graham	2,897	2,951	1.9 %
Mohave	2,554	2,347	(8.1)%
Navajo	1,853	1,940	4.7 %
Pinal	4,069	3,900	(4.2)%
Santa Cruz	293	319	8.9 %
Yavapai	3,849	3,585	(6.9)%
Yuma/La Paz	5,433	5,313	(2.2)%
Total	30,054	29,224	(2.8)%

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 2018, the last actual FTSE data was from FY 2016.)

STEM and Workforce Programs State Aid

The budget includes \$4,698,500 from the General Fund in FY 2018 for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of \$(120,600) from the General Fund in FY 2018 to fund STEM and Workforce Programs State Aid.

As permanent law, the FY 2016 Higher Education BRB eliminated STEM and Workforce Program State Aid for Maricopa and Pima County. The FY 2018 Higher Education BRB, however, restores eligibility for STEM and Workforce Programs State Aid funding for Maricopa and Pima County in permanent law. As session law, however, the FY 2018 Higher Education BRB suspends the program's funding formula for FY 2018 and instead funds the amounts specified in the General Appropriation Act, which total to \$4,698,500, and includes no funding for Maricopa and Pima.

The budget continues to fully fund the STEM and Workforce Program State Aid 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 \$714,100. If the formula were fully funded, Maricopa would receive \$11,125,400 and Pima would receive \$2,440,200 in FY 2018.

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 based on the district's size and the most recent year's actual audited FTSE. The statutory formula provides \$210 per FTSE for districts with 5,000 or less FTSE or \$160 per FTSE for districts with greater than 5,000 FTSE.

Equalization Aid

The budget includes \$26,910,900 from the General Fund in FY 2018 for Equalization Aid. This amount funds the following adjustments:

Property Value Changes

The budget includes an increase of \$1,255,200 from the General Fund in FY 2018 to reflect increased formula costs for funding Equalization Aid due to assessed valuation changes. Detail of specific district changes is shown in *Table 2*.

Table 2
FY 2018 Equalization Funding Changes

District	FY 2017	Year-over-Year Change	FY 2018
Cochise	\$ 4,878,400	\$331,800	\$ 5,210,200
Graham	14,695,800	332,800	15,028,600
Navajo	<u>6,081,500</u>	<u>590,600</u>	<u>6,672,100</u>
Total	\$25,655,700	\$1,255,200	\$26,910,900

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 2018 Equalization Aid formula calculation, the minimum assessed valuation increased 1.1% to \$1.29 billion. (See *Table 3* for the calculation of the growth rate.)

Table 3

Equalization Growth Factor for Tax Years (TY) 2015-2016

District	TY 2015 Primary AV	TY 2016 Primary AV	TY 2015-2016 % Growth
Cochise*	\$ 920,583,400	\$ 909,774,000	(1.2)%
Graham*	203,987,400	193,098,400	(5.3)%
Navajo*	832,770,200	803,062,500	(3.6)%
Coconino	1,537,418,200	1,569,812,800	2.1 %
Mohave	1,685,788,500	1,696,200,000	0.6%
Pinal	2,057,547,500	2,119,750,900	3.0 %
Yavapai	2,279,183,400	2,344,409,900	2.9 %
Yuma/LaPaz	<u>1,322,095,300</u>	<u>1,316,941,500</u>	<u>(0.4) %</u>
Total	\$10,839,373,900	\$10,953,050,400	1.1 %
Minimum AV	\$1,276,674,500	\$1,290,079,600	1.1 %

* These districts qualify to receive Equalization Aid under the state funding formula.

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 1.1%, in TY 2016. In comparison, Cochise declined by (1.2)%, Graham declined by (5.3)%, and Navajo declined by (3.6)%. 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 (\$1.29 billion in FY 2018) and 2) whether the district's change in assessed value was less than the rural districts' average and 3) the applicable tax rate.

Rural County Allocation

The budget includes \$2,596,700 from the General Fund in FY 2018 for Rural County Allocation. This amount funds the following adjustments:

Formula Decreases

This includes a decrease of \$(133,900) from the General Fund in FY 2018 to reflect decreased formula costs for funding Rural County Allocation.

Background – The Rural County Allocation Special Line Item facilitates payment to community college districts for students enrolled from counties that are not a part of an established community college district. If a county is not

part of a community college district, it is responsible for the cost of their students attending community college in another county. A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost for these counties and then the state will withhold these counties' sales tax revenues to offset that cost; therefore, there is no net General Fund impact. The 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. § 15-1469D to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. In May 2017, the JLBC Staff reported the amount to be \$2,596,700 for FY 2018.

Monies for the Rural County Allocation are authorized by A.R.S. § 15-1469.01, and therefore do not appear in the General Appropriation Act.

Rural County Reimbursement Subsidy

The budget includes \$1,273,800 from the General Fund in FY 2018 for Rural County Reimbursement Subsidy. This amount is unchanged from FY 2017.

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 2018 budget allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The budget includes \$2,625,000 from the General Fund in FY 2018 for Tribal Community Colleges. This amount is unchanged from FY 2017.

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 2018 will depend on FY 2018 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 \$138,700, which is 10% of the total FY 2016 TPT collections from the reservation.

Laws 2016, Chapter 148 increased the term of an initial compact from 10 to 20 years and changed the time of a JLBC review required for a compact renewal from the last year of the term to the fourth year prior to the expiration of the term. The Navajo Nation compact is set to expire in 2020. If the Navajo Nation enters into a new 20-year compact with the Executive, the next JLBC review would be in 2036.

The budget assumes that \$1,750,000 will be distributed to Diné College and \$875,000 will be distributed to Navajo Technical College in FY 2018. 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 2018.

Additional Gila Workforce Development Aid

The budget includes \$250,000 for Additional Gila Workforce Development Aid in FY 2018. This amount funds the following adjustments:

Additional Gila Workforce Development Aid

The budget includes an increase of \$250,000 from the General Fund in FY 2018 for Gila County.

Background – As a provisional community college district, Gila County is not eligible for a \$200,000 annual Workforce Development allocation from Proposition 301 monies (see A.R.S. § 42-5029). The budget provides General Fund money for this purpose. Of the \$250,000, \$50,000 is one-time. The FY 2018 budget's 3-year spending plan includes \$200,000 for Gila County in FY 2019 and FY 2020.

Other Issues

Long-Term Budget Impacts

Beyond FY 2018 budget changes, the JLBC Staff estimates that Community College statutory caseload changes will

Table 4

Total Estimated Community College Revenues – FY 2017

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other ^{1/}	FY 2017 Total ^{2/}	FY 2016 Total ^{3/}	% Change from FY 2016
Cochise	\$10,556,600	\$8,615,300	\$20,754,900	\$14,481,800	\$1,142,900	\$55,551,500	\$51,614,100	7.6%
Coconino	2,174,400	8,170,700	9,755,000	6,683,700	946,300	27,730,100	26,129,900	6.1%
Gila ^{4/}	457,700	1,400,000	4,335,100	130,300	375,000	6,698,100	5,276,100	27.0%
Graham	17,540,700	7,963,800	5,941,300	9,350,800	9,205,100	50,001,700	43,935,000	13.8%
Maricopa	-	274,647,700	529,423,900	272,524,400	47,135,700	1,123,731,700	976,335,900	15.1%
Mohave	1,820,000	7,958,300	22,539,100	8,592,500	896,100	41,806,000	41,216,500	1.4%
Navajo	8,041,200	4,700,000	14,362,000	6,046,300	2,943,700	36,093,200	36,098,500	0.0%
Pima	-	48,183,000	107,347,000	58,012,000	5,494,000	219,036,000	201,169,000	8.9%
Pinal	1,821,200	14,000,000	50,672,000	25,600,000	1,845,000	93,938,200	90,158,400	4.2%
Santa Cruz ^{4/}	142,200	0	1,530,000	25,000	11,200	1,708,800	1,627,700	5.0%
Yavapai	1,574,600	10,751,000	47,978,300	13,474,000	4,288,700	78,066,600	76,703,100	1.8%
Yuma/La Paz	<u>3,554,100</u>	<u>14,233,000</u>	<u>34,576,400</u>	<u>19,905,100</u>	<u>4,396,000</u>	<u>76,664,600</u>	<u>83,404,000</u>	<u>(8.1)%</u>
Total	\$47,683,100	\$400,622,800	\$849,215,000	\$434,825,900	\$78,679,700	\$1,811,027,600	\$1,633,668,200	10.9 %

^{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 \$2,210,678,500 for FY 2017.

^{3/} Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are \$1,735,253,100 for FY 2016.

^{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.

require an additional \$945,900 in FY 2019 and an additional \$1,200,000 in FY 2020.

These estimates assume:

- Flat enrollment growth (so no change in costs for Operating State Aid or STEM and Workforce Programs State Aid for FY 2019 and FY 2020).
- No funding changes for Operating State Aid or STEM and Workforce Programs State Aid for Maricopa and Pima County.
- A \$(50,000) reduction to reduce the Gila Community College Workforce Development aid from \$250,000 to \$200,000.
- An increase of \$995,900 for Equalization Aid in FY 2019 and \$1,200,000 in FY 2020. These estimates are based on Net Assessed Value (NAV) growth of 1.5% in FY 2019 and 2.0% growth in FY 2020 for counties overall, but a (0.5)% NAV decline in both years for the 3 counties that receive Equalization Aid based on past trends. This would cause NAV in those 3 districts to grow farther from the statewide NAV average for rural counties in both years, entitling them to more Equalization Aid in both years.

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 2017, base operating revenues from all sources are estimated to be \$1,811,027,600, which would be an increase of 10.9% from FY 2016. (See Table 4 for a summary of FY 2017 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 2017 property tax rates.)

In November 2012, Arizona voters approved Proposition 117, which requires primary and secondary taxes to be levied on the same tax base. (See FY 2017 Appropriations Report for more information.) 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

Table 5

Community College Tax Rates – FY 2017

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2016
Cochise	\$2.29	\$0.00	\$2.29	5.1 %
Coconino	0.49	0.13	0.62	1.8 %
Gila	0.87	0.00	0.87	2.5 %
Graham	3.08	0.00	3.08	6.6 %
Maricopa	1.24	0.23	1.47	(1.9)%
Mohave	1.33	0.00	1.33	2.8 %
Navajo	1.79	0.00	1.79	2.6 %
Pima	1.37	0.00	1.37	0.3%
Pinal	2.29	0.34	2.63	(0.9)%
Santa Cruz	0.49	0.00	0.49	5.6 %
Yavapai	1.84	0.21	2.06	(1.6)%
Yuma/La Paz	2.25	0.37	2.63	2.6 %

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.

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 22.1% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2017 weighted average tuition (weighted for each district's proportion of the statewide FTSE count) is \$2,544 if a full-time student attends for 30 hours a year. The FY 2017 amount represents an increase of 3.0% from FY 2016. (See Table 6 for FY 2017 resident tuition and fee rates.)

Table 6

Community College Resident Tuition and Fees – FY 2017

District	Cost Per Credit Hour	Annual Cost ^{1/}	% Change from FY 2016
Cochise	\$79	\$2,370	2.6%
Coconino	102	3,060	10.9%
Gila	80	2,400	15.4%
Graham	80	2,400	15.4%
Maricopa	86	2,580	2.4%
Mohave	88	2,640	0.0%
Navajo	70	2,100	2.9%
Pima	85	2,550	3.7%
Pinal	84	2,520	2.4%
Santa Cruz	79	2,370	2.6%
Yavapai	79	2,370	5.3%
Yuma/La Paz	80	2,400	2.6%
Weighted Average	\$85	\$2,544	3.0%

^{1/} Annual cost is for 30 hours a year, or 15 hours per semester.

Community colleges also receive grants and "other" revenue from a variety of sources. Combined, they account for approximately 28.3% of community college revenues. Grants traditionally come from the federal government, including: the U.S. Department of Education, Small Business Administration, National Science Foundation, and Health and Human Services. Revenue listed in the "other" category includes auxiliary programs, interest incomes, workforce development funds, and transfers.

Total Community College Expenditures

Table 7 shows total budgeted FY 2017 community college expenditures. In FY 2017, total budgeted expenditures are \$2,213,367,100. As mentioned previously, base operating revenues for FY 2017 are \$1,811,026,700; however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are \$2,210,679,400. Of the total \$2,213,367,100 in expenditures, \$1,586,666,800, or 72%, of these expenditures are from the community colleges' General and Restricted Funds. This includes about \$499,238,300, or 23%, for instruction and \$281,986,800, or 13%, for administrative support.

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking lots, book stores, and food service, are \$175,168,700, or 8% of the total. Plant Fund expenditures, which generally include capital costs, are \$220,998,600, or 10% of the total. The remaining \$230,533,000 is for debt service.

Community College Expenditure Limitation - Laws 2016, Chapter 58 modified the method for calculating community college expenditure limits, excludes certain types of expenditures from counting against the limit, and allows for an adjustment to the base expenditure limit.

The expenditure limit is determined by the Economic Estimates Commission (EEC) by adjusting the FY 1980 base limit by changes in estimated FTSE and inflation. Districts are required to submit FTSE estimates annually to the EEC, which uses those estimates to calculate new expenditure limits annually. Chapter 58 requires that districts use the same FTSE calculation method for the EEC submissions as the FTSE calculation for state aid, except that enrollment in career and technical education courses receives an additional weight. Chapter 58 permits districts to submit 1 of the 3 following options as FTSE estimates to the EEC:

- The most recent audited FTSE count for the expenditure limit calculation.

- The average of the 5 most recent audited FTSE counts for the expenditure limit calculation.
- A FTSE count that exceeds the most recent audited FTSE count for the expenditure limit calculations by up to 5% if the actual FTSE count 45 days after classes begin in the current fall semester exceeds the actual FTSE count 45 days after classes began in the previous fall semester.

As session law, Chapter 58 permits districts to submit the average of the 10 most recent audited FTSE counts until FY 2020.

<u>General/Restricted Funds</u>	<u>Total</u>	<u>% of Total</u>
Instruction	\$499,238,300	23%
Public Service	32,227,000	2%
Academic Support	154,454,800	7%
Student Services	161,620,600	7%
Institutional Support	281,986,800	13%
Operation & Maintenance	110,244,800	5%
Scholarships/Grants	321,566,600	14%
Contingency	<u>25,327,900</u>	<u>1%</u>
Subtotal	\$1,586,666,800	72%
Auxiliary Enterprises Fund	\$ 175,168,700	8%
Plant Fund	220,998,600	10%
Debt Service	<u>230,533,000</u>	<u>10%</u>
Total	\$2,213,367,100	100%

The Auditor General is required to separately audit the expenditure limit FTSE calculation and provide a report to the JLBC by October 15 of each year.

Expenditures that count against the expenditure limits generally consist of operating costs of the districts excluding funds generated from tuition, fees, Federal Funds, bond proceeds, debt service, and state capital funding. Chapter 58 allows districts to exclude expenditures from the following revenue sources as counting against their expenditure limit: grants and donations, research and development royalty, licensing and profit-sharing agreements, entrepreneurial and commercial activities, auxiliary fees, and goods and services through a contract with a political subdivision or tribal government.

Chapter 58 also allows district boards to refer to the voters in the district a permanent change in the base limit used to determine the expenditure limitation. The resolution for a base limit adjustment must include the current base limit, the proposed base limit, the increase in expenditure limit capacity that would be generated by the adjustment, and a rationale for the request.

Community College Tuition Financing Districts

Laws 2015, Chapter 306 renamed provisional community college districts established after December 31, 2014, to *community college tuition financing districts* and specified that the county board of supervisors will serve as the governing board to any community college tuition financing district. Gila and Santa Cruz are the only existing provisional districts and they were both established before December 31, 2014.

An area that wishes to form a community college but does not meet the minimum assessed valuation or population requirements in A.R.S § 15-1402 may form a tuition financing district. A tuition financing district is required to contract with an existing community college district to provide instruction and services to students.

Constable Ethics Standards and Training Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	246,300	497,700	497,700
TOTAL - ALL SOURCES	246,300	497,700	497,700

AGENCY DESCRIPTION — The board establishes and enforces the code of conduct for constables throughout the state. The board also administers funding for constable training and equipment. The Arizona Association of Counties currently manages the board’s administrative responsibilities. The board receives fees from every writ collected on behalf of a Justice of the Peace.

Registrar of Contractors

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	105.6	105.6	105.6
Personal Services	4,124,100	5,670,600	5,670,600
Employee Related Expenditures	1,670,100	2,296,400	2,399,400
Professional and Outside Services	232,200	405,300	405,300
Travel - In State	215,500	505,100	505,100
Travel - Out of State	5,300	11,800	11,800
Other Operating Expenditures	1,864,500	2,158,300	2,158,300
Equipment	68,500	100,300	100,300
OPERATING SUBTOTAL	8,180,200	11,147,800	11,250,800
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	381,000	1,017,600	1,017,600 ^{1/}
AGENCY TOTAL	8,561,200	12,165,400	12,268,400 ^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Registrar of Contractors Fund	8,561,200	12,165,400	12,268,400
SUBTOTAL - Other Appropriated Funds	8,561,200	12,165,400	12,268,400
SUBTOTAL - Appropriated Funds	8,561,200	12,165,400	12,268,400
Other Non-Appropriated Funds	3,206,600	4,666,800	4,666,800
TOTAL - ALL SOURCES	11,767,800	16,832,200	16,935,200

AGENCY DESCRIPTION — The agency licenses, regulates and conducts examinations of residential and commercial construction contractors.

Operating Budget

The budget includes \$11,250,800 and 105.6 FTE Positions from the Registrar of Contractors Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$103,000 from the Registrar of Contractors Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Office of Administrative Hearings Costs

The budget includes \$1,017,600 from the Registrar of Contractors Fund in FY 2018 for Office of Administrative Hearings (OAH) Costs. This amount is unchanged from FY 2017.

Monies in this line item are transferred from the Registrar of Contractors to OAH for services provided by OAH.

^{1/} Any transfer to or from the amount appropriated for the Office of Administrative Hearings Costs line item requires review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Corporation Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9 ^{1/}
Personal Services	15,579,300	16,648,600	16,648,600
Employee Related Expenditures	5,921,000	6,109,500	6,442,200
Professional and Outside Services	710,600	235,500	235,500
Travel - In State	97,600	146,600	146,600
Travel - Out of State	135,500	141,000	141,000
Other Operating Expenditures	3,288,500	2,633,700	2,633,700
Equipment	201,200	245,000	245,000
OPERATING SUBTOTAL	25,933,700	26,159,900	26,492,600
SPECIAL LINE ITEMS			
Corporation Filings, Same-Day Service	0	397,300	401,300 ^{2/}
Corporations Division Database Upgrade	0	2,000,000 ^{3/}	0
Securities Division Database Upgrade	668,100	0	0
Utilities Audits, Studies, Investigations & Hearings	66,000	380,000	380,000 ^{4/}
AGENCY TOTAL	26,667,800	28,937,200	27,273,900 ^{5/}
FUND SOURCES			
General Fund	608,100	2,611,600	621,500
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	49,600	49,900	51,600
Investment Management Regulatory and Enforcement Fund	711,400	708,900	717,500
Public Access Fund	6,051,900	6,558,800	6,638,100
Securities Regulatory and Enforcement Fund	5,516,100	4,909,600	4,969,300
Utility Regulation Revolving Fund	13,730,700	14,098,400	14,275,900
SUBTOTAL - Other Appropriated Funds	26,059,700	26,325,600	26,652,400
SUBTOTAL - Appropriated Funds	26,667,800	28,937,200	27,273,900
Other Non-Appropriated Funds	13,700	0	0
Federal Funds	988,700	825,000	825,000
TOTAL - ALL SOURCES	27,670,200	29,762,200	28,098,900

AGENCY DESCRIPTION — The Arizona Corporation Commission (ACC) was established by Article 15 of the Arizona Constitution and consists of 5 statewide elected Commissioners, each serving 4-year terms. The commission has 3 primary responsibilities. The Corporations Division provides public access to corporate annual reports, articles of incorporation, and corporate status change documents. The Securities Division regulates securities dealers and investment advisers. The Utilities Division monitors approximately 500 public service corporations operating in Arizona and establishes public utility rates. Other functions of the commission include inspecting gas pipelines and railroad track.

^{1/} Includes 2 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} The \$401,300 appropriated from the Public Access Fund for the Corporation Filings, Same-Day Service line item reverts to the Public Access Fund established by A.R.S. § 10-122.01 at the end of FY 2018 if the commission has not established a same-day service pursuant to A.R.S. § 10-122. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{3/} This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until June 30, 2018.

^{4/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act Footnote)

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

Operating Budget

The budget includes \$26,492,600 and 298.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$621,500
Arizona Arts Trust Fund	51,600
Investment Management Regulatory and Enforcement Fund	717,500
Public Access Fund	6,236,800
Securities Regulatory and Enforcement Fund	4,969,300
Utility Regulation Revolving Fund	13,895,900

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$332,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	9,900
Arizona Arts Trust Fund	1,700
Investment Management Regulatory and Enforcement Fund	8,600
Public Access Fund	75,300
Securities Regulatory and Enforcement Fund	59,700
Utility Regulation Revolving Fund	177,500

(Please see Agency Detail and Allocations section.)

Corporation Filings, Same-Day Service

The budget includes \$401,300 and 2 FTE Positions from the Public Access Fund in FY 2018 for Corporation Filings, Same-Day Service. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$4,000 from the Public Access Fund in FY 2017 for statewide adjustments.

A footnote in the General Appropriation Act specifies that monies in this line item revert to the Public Access Fund if the commission has not established a same-day service pursuant to A.R.S. § 10-122. The fee for same-day and next-day services must be determined by a supermajority vote of the Commissioners. To date, such a fee has not been set and same-day and next-day services have not been implemented.

Corporations Division Database Upgrade

The budget includes no funding in FY 2018 for Corporations Division Database Upgrade. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2018 for the elimination of one-time funding used to replace database and document imaging systems in the Corporations Division.

Monies are being used to replace 2 outdated database and document imaging systems in the Corporations Division. The new software includes imaging and accounting components which allow the public to submit documents and payments online. The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) exempts this funding from lapsing until June 30, 2018.

Utilities Audits, Studies, Investigations & Hearings

The budget includes \$380,000 from the Utility Regulation Revolving Fund in FY 2018 for Utilities Audits, Studies, Investigations & Hearings. This amount is unchanged from FY 2017.

Monies in this line item allow the commission to hire outside consultants to provide professional expertise and advice to the Utilities Program staff.

State Department of Corrections

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9,534.0	9,541.0	9,541.0
Correctional Officer Personal Services	306,423,300	323,972,400	323,972,400
Health Care Personal Services	2,652,100	2,829,400	2,829,400
All Other Personal Services	61,467,400	64,353,500	64,662,200
Personal Services Subtotal	370,542,800	391,155,300	391,464,000
Employee Related Expenditures	196,365,000	205,952,700	226,809,100
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	53,719,800	15,565,600	15,565,600
Health Care All Other Operating Expenditures			
Professional and Outside Services	946,000	1,275,000	1,275,000
Travel - In State	15,700	20,000	20,000
Travel - Out of State	9,800	10,000	10,000
Other Operating Expenditures	760,100	700,400	700,400
Equipment	12,800	15,000	15,000
Health Care Operating Subtotal	1,744,400	2,020,400	2,020,400
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	7,384,300	7,281,700	7,281,700
Travel - In State	241,600	297,700	297,700
Travel - Out of State	65,000	119,700	119,700
Food	39,195,500	41,748,000	41,748,000
Other Operating Expenditures	105,568,200	112,325,100	112,160,700
Equipment	3,694,000	3,732,200	3,679,200
Non-Health Care Operating Subtotal	156,148,600	165,504,400	165,287,000
OPERATING SUBTOTAL	778,520,600	780,198,400	801,146,100
SPECIAL LINE ITEMS			
Leap Year	929,100	0	0
Radio Equipment	0	2,800,000	0
Private Prison Per Diem	132,969,000	164,317,100	169,220,200 ^{1/}
Inmate Health Care Contracted Services	135,251,900	149,837,100	148,811,700 ^{2/}
Named Claimants	0	6,900	0
AGENCY TOTAL	1,047,670,600	1,097,159,500	1,119,178,000 ^{3/4/5/6/}
FUND SOURCES			
General Fund	1,016,632,100	1,046,689,500	1,067,624,800
<u>Other Appropriated Funds</u>			
Alcohol Abuse Treatment Fund	253,500	555,500	555,500
Corrections Fund	14,528,500	30,317,800	30,312,300
Inmate Store Proceeds Fund	0	0	386,300
Penitentiary Land Fund	979,200	979,300	2,062,500 ^{7/}
Prison Construction and Operations Fund	11,685,700	13,686,300	12,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,797,000	1,861,500	2,661,500 ^{8/}
State Education Fund for Correctional Education	394,500	669,500	675,000 ^{9/}
Transition Program Fund	1,400,100	2,400,100	2,400,100
SUBTOTAL - Other Appropriated Funds	31,038,500	50,470,000	51,553,200
SUBTOTAL - Appropriated Funds	1,047,670,600	1,097,159,500	1,119,178,000

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
Other Non-Appropriated Funds	48,851,300	50,789,700	50,789,700
Federal Funds	6,423,000	7,059,300	7,059,300
TOTAL - ALL SOURCES	1,102,944,900	1,155,008,500	1,177,027,000

AGENCY DESCRIPTION — The Arizona Department of Corrections (ADC) maintains and administers a statewide system of prisons for adult and minor offenders legally committed to the department. The department is also responsible for the supervision of offenders on parole and other prison release mechanisms, as specified by law.

Summary

The budget increases ADC's General Fund spending by \$20,935,300, or 2.0% in FY 2018. The changes include:

- \$12,155,400 for statewide adjustments.
- \$8,377,100 for higher employer retirement expenses.
- \$1,474,600 for an increase to the Inmate Health Care Contracted Services line item to meet the needs of the average daily population.
- \$3,125,400 for the annualization of 1,000 medium custody private beds that opened in FY 2017.
- \$517,900 for recidivism reduction initiatives.
- \$(2,500,000) from Medicaid savings.
- \$(2,100,000) from Kingman savings.
- \$(108,200) to remove one-time costs.
- \$(6,900) for other adjustments.

Operating Budget

The budget includes \$801,146,100 and 9,541 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$790,466,800
Alcohol Abuse Treatment Fund	555,500
Corrections Fund	3,000,800
Inmate Store Proceeds Fund	386,300
Penitentiary Land Fund	100
Prison Construction and Operations Fund	2,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,161,500
State Education Fund for Correctional Education	675,000
Transition Program Fund	2,400,100

These amounts fund the following adjustments:

- 1/ Of the amount appropriated for the Private Prison Per Diem line item, \$17,463,300 shall be used for the purpose of making a debt service payment on the financing agreement authorized by Laws 2016, Chapter 119, Section 24. (General Appropriations Act footnote)
- 2/ Before implementing any changes in per diem rates for Inmate Health Care Contracted Services, the State Department of Corrections shall submit its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 3/ Before placing any inmates in out-of-state provisional beds, the department shall place inmates in all available prison beds in facilities that are located in this state and that house Arizona inmates, unless the out-of-state provisional beds are of a comparable security level and price. (General Appropriation Act footnote)
- 4/ The State Department of Corrections shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing department expenditures for the month and year-to-date as compared to prior year expenditures on or before the 30th of the following month. The report shall be in the same format as the prior fiscal year and include an estimate of potential shortfalls, potential surpluses that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 5/ On or before August 1, 2017, the State Department of Corrections shall provide a report on bed capacity to the Joint Legislative Budget Committee for its review. The report shall reflect the bed capacity for each security classification by gender at each state-run and private institution, divided by rated and total beds. The report shall include bed capacity data for June 30, 2016 and June 30, 2017 and the projected capacity for June 30, 2018, as well as the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds. If the department develops a plan after its August 1 report to close state-operated prison rated beds or cancel or not renew contracts for privately operated prison beds, the State Department of Corrections shall submit a bed plan detailing the proposed bed closures for review by the Joint Legislative Budget Committee before implementing these changes. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 7/ One hundred percent of land earnings and interest from the Penitentiary Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 8/ Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 9/ Before the expenditure of any State Education Fund for Correctional Education monies in excess of \$675,000, the State Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

Recidivism Reduction Initiatives

The budget includes an increase of \$517,900 from the General Fund in FY 2018 for an additional reentry counselor and 6 substance abuse counselors for the Maricopa Reentry Center (MRC). In lieu of increasing the agency's FTE position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff. These funds are not intended to increase the total bed capacity of the MRC.

The MRC, located adjacent to the Adobe Mountain Juvenile Corrections facility, provides short-term beds for prisoners needing intensive treatment and inmates that have violated the conditions of their release that face a short-term sanction stay. ADC operates a similar facility in Tucson.

The FY 2017 General Appropriation Act appropriated \$200,000 from the Transition Program Fund for this purpose and assumed an additional \$1,600,000 in savings from the refinancing of an existing prison capital lease were transferred from the Private Prison Per Diem line item to the operating budget for the operation of the MRC.

CORP Retirement Adjustment

The budget includes an increase of \$8,377,100 from the General Fund in FY 2018 for an increase to the employer contribution rate for the Corrections Officer Retirement Plan from 18.85% to 21.17% in FY 2018.

Statewide Adjustments

The budget includes an increase of \$12,160,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	12,155,400
State Education Fund for Correctional Education	5,500

(Please see the Agency Detail and Allocations section.)

Fund Shift

The budget includes a decrease of \$(1,186,300) from the Prison Construction and Operations Fund and a corresponding increase of \$386,300 from the Inmate Store Proceeds Fund and \$800,000 from the State Charitable, Penal and Reformatory Institutions Land Fund.

The fund shift of \$1,186,300 was made to align the expenditures with the current revenue levels. The FY 2017 budget appropriated \$13,686,300 from the Prison Construction and Operations Fund for food and health care. At the current revenue level of \$12,637,700, this was not sustainable on an ongoing basis.

Remove One-Time Equipment

The budget includes a decrease of \$(108,200) from the General Fund in FY 2018 for the removal of one-time equipment costs for the private prison monitoring and a reentry planner issues added in the FY 2017 budget.

The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) continues to require the department to report actual FY 2017, FY 2018, and requested FY 2019 expenditures as delineated in the prior year when the department submits its FY 2019 budget request.

Radio Equipment

The budget includes no funding in FY 2018 for radio equipment. This amount funds the following adjustments:

Remove One-Time Equipment

The budget includes a decrease of \$(2,800,000) from the Corrections Fund in FY 2018 for the removal of one-time equipment costs for the replacement of old radios.

The department owns 10,079 radios, and 25% of the radios are over 10 years old. This money was used to replace obsolete radios.

Private Prison Per Diem

The budget includes \$169,220,200 in FY 2018 for Private Prison Per Diem. This amount consists of:

General Fund	139,846,300
Corrections Fund	27,311,500
Penitentiary Land Fund	2,062,400

These amounts fund the following adjustments:

Annualize Bed Cost

The budget includes an increase of \$7,003,100 in FY 2018 for annualizing the cost of 1,000 new private male medium custody beds opened in FY 2017. The beds cost a total of \$24,101,600, of which \$17,098,500 was appropriated in FY 2017. This amount consists of:

General Fund	3,125,400
Corrections Fund	2,794,500
Penitentiary Land Fund	1,083,200

Kingman Refinance Savings

The budget includes a decrease of \$(2,100,000) in FY 2018 from the General Fund for savings related to the refinancing of the Kingman facility.

With the refinancing of the Kingman facility, ADC adjusted the per diem at the Kingman facility from \$60.10 to \$40.37. This per diem change includes \$2,500,000 for increasing the pay of employees at the facility. After accounting for the pay increase, the refinancing was estimated to save \$6,400,000 in FY 2017. Of these net savings, \$2,700,000 was transferred to the Inmate Health Care Contracted Services line item for an inflation increase and \$1,600,000 to the operating budget for the MRC, leaving \$2,100,000 of unallocated savings for FY 2017. For FY 2018, the budget allocated these savings for the cost of annualizing the beds.

The state purchased this facility with the refinancing. As part of the Kingman refinance, the state issued traditional lease-purchase financing to purchase the facility. In order to more accurately display the level of spending related to private prison facilities, the \$17,463,300 debt service amount paid by the state is retained in the Private Prison Per Diem line item rather than being moved to the department's operating budget. *(For more detailed information on Kingman, please see the Other Issues section.)*

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. Two private prison contracts (Kingman and Marana) are solely for management services. As noted above, the Kingman facility is being lease purchased by the state. The state owns the Marana facility outright. Administrative expenses related to monitoring private prison contracts are included in the department's operating budget.

Inmate Health Care Contracted Services

The budget includes \$148,811,700 in FY 2018 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	137,311,700
Prison Construction and Operations Fund	10,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

These amounts fund the following adjustments:

Contract Population Adjustment

The budget includes an increase of \$1,474,600 from the General Fund for an increase to the amount available in

the line item to align with the population of prisoners receiving health care in state facilities.

Medicaid Savings

The budget includes a decrease of \$(2,500,000) from the General Fund for savings from higher Medicaid reimbursement of hospital stays outside prison facilities.

With the additional \$2,500,000, the FY 2018 budget presumes that the department recovers at least \$8,500,000 in savings annually for Medicaid reimbursement of the costs of outside health care. For FY 2016, ADC received a total of \$10,701,400 in savings. These annual savings were from services rendered in FY 2014, FY 2015, and FY 2016. *(For more detailed information on inmate health care, please see the FY 2017 Appropriations Report and FY 2018 JLBC Baseline.)*

The FY 2018 budget does not include projections for the new contract that would begin on June 2018. There is currently an RFP for a new contract.

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$12.54 (increased from \$12.06 on March 3, 2017). The line item funds the costs of the contract; ADC expenditures for monitoring the contracted services are included within the department's operating budget. An additional \$6.0 million of Medicaid savings that is not included in the appropriated amount augments funding in this line item. A General Appropriation Act footnote requires review of any changes to the per diem. The contract can be amended for changes to scope, and the vendor may request adjustments for inflation.

Named Claimants

The budget includes no funding in FY 2018 for Named Claimants. This amount funds the following adjustments:

One-Time Named Claimants Funding

The budget includes a decrease of \$(6,946) from the General Fund in FY 2018 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants in ADOA Other Issues.)*

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Fund Transfers
- FY 2017 Supplemental
- Additional Legislation

- Proposition 123
- ASP - Kingman Refinance
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - Bed Surplus/Shortfall

Long-Term Budget Impacts

As part of the budget's, 3-year spending plan, ADC's General Fund costs are projected to increase by \$812,700 in FY 2019 over FY 2018, and \$1.6 million in FY 2020 over FY 2019. This estimate assumes the cost of an increasing population to be serviced in the health care contract. The estimates do not include any adjustments due to a new contract and or changes in per diem. *(Please see Inmate Health Care Contracted Services line item for further details.)*

Fund Transfers

The budget includes the following FY 2018 transfers from this agency's funds to the Department of Corrections Building Renewal Fund. This amount consists of:

Arizona Correctional Industries Revolving Fund	\$1,450,000
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The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) appropriates \$1,450,000 to the department for the replacement of locking systems at state prison facilities. Laws 2017, Chapter 305, Section 143 transferred \$1,450,000 from the Arizona Correctional Industries Revolving Fund to the Department of Corrections Building Renewal fund for this purpose.

FY 2017 Supplemental

They FY 2018 budget includes a FY 2017 supplemental appropriation of \$6,946 from the General Fund in FY 2017 for the funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Additional Legislation

Community Notification for Correctional Facilities
Laws 2017, Chapter 314 amends statute to require the notification of real property owners within a 2-mile radius as to the change of use or establishment of any correctional facility. The law also makes changes to the hearing process, the notification of elected officials, and the notification of schools and child care facilities within 5-miles of the correctional facility. These new

notifications terms are expected to have a minimal cost to the department.

Annual Report for Treatment Programs

Laws 2017, Chapter 33 requires the Department of Corrections to submit an annual report on drug and alcohol programs detailing the number of offenders receiving services, the cost per offender, and the source of funds to the Governor, Legislature, and Secretary of State by December 1 of each year.

Proposition 123

As a beneficiary of the Arizona State Land Trust, ADC receives monies generated from lease revenues and the proceeds from land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

ADC received a total of \$2,835,100 in its land trust funds, Penitentiary Land Fund and the State Charitable, Penal, and Reformatory Institutions Land Fund, in FY 2015. As approved by the voters in May 2016, Proposition 123 increased the Treasurer's annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

The JLBC Staff projects that the Penitentiary Land Fund will have an FY 2017 ending balance of \$3,772,300. The fund will have estimated revenues of \$2,594,100 in FY 2018, compared to FY 2018 expenditures of \$3,062,500, including \$1,000,000 in the Arizona Criminal Justice Commission budget.

The JLBC Staff projects that the State Charitable, Penal, and Reformatory Institutions Land Fund will have an FY 2017 ending balance of \$3,791,400. The fund will have estimated revenues of \$2,862,200 in FY 2018, compared to a FY 2018 expenditures of \$3,661,500, including \$1,000,000 in the Arizona Criminal Justice Commission budget. *(Please see the Land Department narrative for more information.)*

ASP - Kingman Refinance

The FY 2017 Criminal Justice BRB allowed the Arizona Department of Administration (ADOA) with the participation of ADC to enter into a new financing agreement in FY 2017 to refinance the existing Kingman private prison capital lease. With the Kingman contract, a portion of the per diem was designated to pay for the debt service for the facility. The arrangement qualified as a capital lease, and was reported as part of the state's debt obligation. Due to a high interest rate, refinancing allowed for cost savings. This legislation included a

provision that the proposed agreement and expenditure of any cost savings be submitted to the JCCR. Further, any agreement was to generate savings of at least \$25 million over the lifetime of the agreement. By executing a lease-purchase agreement, the state lowered the state's debt service payments since the new agreement was at a lower interest rate.

At the JCCR meeting on June 16, 2016, ADOA and ADC received a favorable review for the refinancing agreement. The state purchased the \$137.4 million buildings and facility through a lease-purchase agreement. The annual debt service payment is approximately \$17.4 million during most years. Over the 9-year term, the state will pay \$145.1 million at a projected 2% interest rate. The new financing agreement is projected to generate \$79.3 million in total savings through FY 2025. A private vendor operates the facility on a management only contract budget.

The savings are allocated as follows in the FY 2018 budget:

- Kingman Adjustment - ADC increased the per diem rate to the vendor on an annual basis by \$2.5 million. This money was used for a raise for the vendor's employees. The new per diem rate of \$40.37 included funding for this increase.
- ADC Health Care Adjustment - In FY 2017, the savings funded an increase to the inmate health care per diem at state-run facilities from \$11.60 to \$12.06 at a net ongoing cost of \$2.7 million for inflation.
- Maricopa Reentry Center- ADC transferred \$1.6 million of the savings for the MRC. The facility provides short-term beds for prisoners needing intensive treatment and inmates that have violated the conditions of their release that face a short-term sanction stay. ADC currently operates a similar facility in Tucson.
- The 2018 budget utilized \$2,100,000 in unallocated savings for the annualization of 1,000 medium private prison beds that opened in FY 2017.

Bed Capacity Issues

Inmate Growth Rate

The FY 2018 budget assumes a population of 42,902 in FY 2017 and 43,262 in FY 2018.

As of June 6, 2017, the total inmate population was 42,155. This is a decrease of (747) inmates since the June 30, 2016 population of 42,902.

Table 1 details the projected annual population growth rate by custody and gender each year during FY 2018 to FY 2020:

<u>Custody</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Minimum	72	12	84
Medium	168	24	192
Close	48	12	60
Maximum	<u>24</u>	<u>0</u>	<u>24</u>
Total	312	48	360

As with the overall growth rate assumptions, the projections by gender and custody level may need further revision in light of growth and the availability of temporary beds.

Bed Capacity

In measuring ADC's ability to house its inmate population, there are 2 methods of defining bed capacity:

- "Rated" beds are permanent and were originally designed for housing prisoners. This amount was 38,133 public and private prisons on June 30, 2016, an increase of 48 from the 38,085 on June 30, 2015. This increase came from the addition of 48 male maximum custody beds at ASPC - Eyman. With the addition of 1,000 new male medium private beds during fall 2016, the projected number of rated beds for FY 2018 is 39,133 as shown on Table 3.
- 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 2016, the department increased its total operating capacity by 320 beds, from 43,689 to 44,009. As of June 30, 2016, public and private prisons have a total of 5,876 temporary beds, an increase from 5,604 as of June 30, 2015. This increase came from the addition of 272 temporary beds. ADC projects 5,996 temporary beds in use at the end of FY 2017 as shown on Table 3 for a total operating capacity of 45,129. The projected operating capacity for FY 2018 is expected to remain the same at 45,129.

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 1,692 as of June 30, 2016, 3 beds more than on June 30, 2015.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification) as discussed in this section. A FY 2018 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 2016, the inmate population increased by 291 inmates. At the end of FY 2016, the department had a total rated bed shortfall of (4,769). After adjusting for the 5,876 temporary beds in the overall ADC system, the rated bed shortfall became a 1,107 bed surplus as shown in *Table 3*.

Under the budgeted population estimates, the rated bed shortfall is projected at (4,129) by June 30, 2018. The operating capacity is a bed surplus of 1,867, assuming 5,996 temporary beds.

Bed shortfall estimates vary by level of security (e.g. minimum, medium, or maximum), and by gender. For FY 2019, *Table 2* assumes a growth rate of 360 with growth rate assumptions by gender and custody level based on current data from ADC for FY 2018. There would be an overall male custody beds surplus of 1,313 beds, with a surplus at every custody level.

<u>Custody</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Minimum	493	493	421	349
Medium	144	644	476	308
Close	(67)	433	385	337
Maximum	<u>247</u>	<u>367</u>	<u>343</u>	<u>319</u>
Total	817	1,937	1,625	1,313

Table 3

Fiscal Year-End Operating Capacity

State	FY 2016 Actual			FY 2017 Estimate			FY 2018 Estimate		
	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity
Douglas	1,925	433	2,358	1,925	433	2,358	1,925	433	2,358
Eyman	3,976	1,407	5,383	3,976	1,527	5,503	3,976	1,527	5,503
Florence	3,440	697	4,137	3,440	697	4,137	3,440	697	4,137
Perryville	4,202	96	4,298	4,202	96	4,298	4,202	96	4,298
Phoenix	552	168	720	552	168	720	552	168	720
Lewis	5,104	868	5,972	5,104	868	5,972	5,104	868	5,972
Safford	1,453	416	1,869	1,453	416	1,869	1,453	416	1,869
Tucson	4,605	517	5,122	4,605	517	5,122	4,605	517	5,122
Winslow	1,626	216	1,842	1,626	216	1,842	1,626	216	1,842
Yuma	4,350	420	4,770	4,350	420	4,770	4,350	420	4,770
Subtotal	31,233	5,238	36,471	31,233	5,358	36,591	31,233	5,358	36,591
Private (Per Diem)									
Kingman (\$40.37)	3,400	108	3,508	3,400	108	3,508	3,400	108	3,508
Phoenix West (\$49.28)	400	100	500	400	100	500	400	100	500
Marana (\$46.69)	500	-	500	500	-	500	500	-	500
Florence West (\$44.98 - 55.79)	600	150	750	600	150	750	600	150	750
Florence II (\$67.22)	1,000	280	1,280	1,000	280	1,280	1,000	280	1,280
Eloy (\$65.43)	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Eloy II (\$66.35)				1,000		1,000	1,000		1,000
Subtotal ^{1/} _{2/}	6,900	638	7,538	7,900	638	8,538	7,900	638	8,538
Total - All Beds ^{3/}	38,133	5,876	44,009	39,133	5,996	45,129	39,133	5,996	45,129
State Prison Population	35,584		35,584	35,584		35,584	35,776		35,776
Female	4,028		4,028	4,028		4,028	4,076		4,076
Male	31,556		31,556	31,556		31,556	31,700		31,700
Private Prison Population									
Male	7,318		7,318	7,318		7,318	7,486		7,486
Total Population ^{4/}	42,902		42,902	42,902		42,902	43,262		43,262
Bed Surplus/(Shortfall)	(4,769)		1,107	(3,769)		2,227	(4,129)		1,867
Male	(4,963)		817	(3,963)		1,937	(4,275)		1,625
Female	194		290	194		290	146		242
Bed Surplus / (Shortfall)									
(% of Beds)	-11%		3%	-9%		5%	-10%		4%

^{1/} 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. Marana and Kingman are management only contracts.

^{2/} In FY 2017, 1,000 private medium custody beds opened by January 2017. The beds are displayed in the table.

^{3/} Excludes special use beds totaling 1,692 as of June 30, 2016.

^{4/} The chart excludes prisoners awaiting transfer from county jail.

Board of Cosmetology

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	24.5	24.5	24.5
Personal Services	783,600	827,600	827,600
Employee Related Expenditures	356,700	400,700	425,800
Professional and Outside Services	165,000	165,000	165,000
Travel - In State	51,600	51,600	51,600
Travel - Out of State	9,300	9,300	9,300
Other Operating Expenditures	367,500	340,200	340,200
Equipment	10,800	10,800	10,800
OPERATING SUBTOTAL	1,744,500	1,805,200	1,830,300
SPECIAL LINE ITEMS			
Annual Leave Payout	0	0	34,200
AGENCY TOTAL	1,744,500	1,805,200	1,864,500 ^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Cosmetology Fund	1,744,500	1,805,200	1,864,500
SUBTOTAL - Other Appropriated Funds	1,744,500	1,805,200	1,864,500
SUBTOTAL - Appropriated Funds	1,744,500	1,805,200	1,864,500
TOTAL - ALL SOURCES	1,744,500	1,805,200	1,864,500

AGENCY DESCRIPTION — The board administers licensing examinations and licenses; inspects salons and schools; investigates violations of sanitation requirements and procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$1,830,300 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$25,100 from the Board of Cosmetology Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Annual Leave Payout

The budget includes \$34,200 from the Board of Cosmetology Fund in FY 2018 for an annual leave payout.

The Board of Cosmetology anticipates payment of accrued annual leave balances to several retirement-eligible employees. Upon payment of these balances, the line item is intended to be removed from the budget.

Other Issues

Additional Legislation

Hairstylist Licensure

Laws 2017, Chapter 12 establishes a hairstylist license within the Board of Cosmetology. In addition to its regulation and licensure of cosmetologists, aestheticians, and nail technicians, and the schools and instructors which train those professions, the Board of Cosmetology is now required to regulate and license hairstylists, hairstyling schools, and hairstyling instructors.

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

County Funding

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
FUND SOURCES			
General Fund	6,000,500	14,000,500	15,650,700
SUBTOTAL - Appropriated Funds	6,000,500	14,000,500	15,650,700
TOTAL - ALL SOURCES	6,000,500	14,000,500	15,650,700

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services and to offset local cost sharing.

Assistance to Counties

The budget includes \$15,650,700 from the General Fund in FY 2018 for assistance to counties and offsets for local cost sharing. This amount funds the following adjustments:

Continue One-Time Offset

The budget includes no change in FY 2018 to continue one-time funding of \$8,000,000 distributed to counties to offset contributions for the cost of the Department of Juvenile Corrections (DJC).

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2016 Criminal Justice BRB required that each county pay their proportional share of \$12,000,000 according to their population in the 2010 Decennial Census. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) reduced this amount to \$11,260,000 to reflect savings realized from a decline in the DJC population. The FY 2018 Criminal Justice BRB (Laws 2017, Chapter 303) continues this funding level of \$11,260,000. (Please see the Department of Juvenile Corrections section for details regarding these county cost sharing requirements.)

One-Time County Assistance

The budget includes a one-time increase of \$1,650,150 from the General Fund in FY 2018 for assistance to Pinal, Yavapai, and Mohave Counties. The budget appropriates these monies to the Arizona Department of Administration (ADOA) to be allocated equally among counties with a population of more than 200,000 and less than 900,000 according to the 2010 Decennial Census. Each county receives \$550,050 (see Table 1).

Table 1

County Distributions

County	Ongoing Distribution	One-Time DJC Offset	One-Time Assistance	FY 2018 Total
Apache	\$ 550,050	\$ 89,500	-	\$ 639,550
Cochise	550,050	164,400	-	714,450
Coconino	550,050	168,300	-	718,350
Gila	550,050	67,100	-	617,150
Graham	1,050,050	46,600	-	1,096,650
Greenlee	550,050	10,500	-	560,550
La Paz	550,050	25,700	-	575,750
Maricopa	-	4,777,300	-	4,777,300
Mohave	-	250,500	550,050	800,550
Navajo	550,050	134,500	-	684,550
Pima	-	1,226,900	-	1,226,900
Pinal	-	470,300	550,050	1,020,350
Santa Cruz	550,050	59,300	-	609,350
Yavapai	-	264,100	550,050	814,150
Yuma	550,050	245,000	-	795,050
Total	\$6,000,500	\$8,000,000	\$1,650,150	\$15,650,650

An ongoing distribution of \$6,000,500 is appropriated to ADOA and is 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 receives \$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.

Other Issues

Additional Legislation

County Flexibility

The FY 2018 Revenue BRB (Laws 2017, Chapter 312) would, as session law, continue to allow counties with a population of less than 250,000 according to the 2010 Decennial Census to use any source of county revenue to meet a county fiscal obligation for FY 2018, up to \$1,250,000 of county revenue for each county. Counties are required to report to the Director of the Joint Legislative Budget Committee (JLBC) on the intended amount and sources of funds by October 1, 2017. *(Please see County Flexible Revenue Report for prior use of this provision.)*

County Flexible Revenue Report

The FY 2017 Revenue BRB (Laws 2016, Chapter 125) allowed counties with a population of less than 250,000 according to the 2010 Decennial Census to use any source of county revenue, up to \$1,250,000, for purposes other than the purpose of the revenue source to meet a county obligation for FY 2017. Counties using the authority under Chapter 125 were required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2016.

Of the 12 eligible counties, 5 reported using the flexibility:

- Apache County: \$1.2 million from the Community College District, Library District, and juvenile detention to the General Fund and Jail District for law enforcement and the jail;
- Coconino County: \$493,700 from the Jail District to the General Fund for facility maintenance, technology replacement, phone system migration, the DUI/Drug Court, and overtime payments to sworn officers;
- La Paz County: \$596,500 from Vehicle License Tax disbursements and the Waste Tire Fund to the General Fund to cover the structural deficit;
- Navajo County: \$1.2 million from the Library District and Flood Control District to the General Fund for general expenditures;
- Yuma County: \$51,000 from the Highway User Revenue Fund and 4 special taxing districts to the General Fund for long-term planning and the cleaning and maintenance of the South County facility.

The following 7 eligible counties did not utilize this provision:

Cochise, Gila, Graham, Greenlee, Mohave, Santa Cruz, and Yavapai Counties.

Table 2 shows the utilization of the county flexibility language since FY 2013.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
Apache	\$ 900,000	\$ 500,000	\$ 500,000	\$ 400,000	\$ 1,200,000	\$ 3,500,000
Cochise			36,700	23,000		59,700
Coconino				10,634,800	493,700	11,128,500
Gila						-
Graham						-
Greenlee						-
La Paz			5,012,500	992,500	596,500	6,601,500
Maricopa						-
Mohave	6,980,300					6,980,300
Navajo	864,700	580,300	1,430,300	1,200,000	1,200,000	5,275,300
Pima						-
Pinal	8,940,800			1,000,000		9,940,800
Santa Cruz	550,000					550,000
Yavapai						-
Yuma	14,700	56,000	29,700	10,200	51,000	161,600
Total	\$ 18,250,500	\$ 1,136,300	\$ 7,009,200	\$14,260,500	\$ 3,541,200	\$44,197,700

*As reported by county governments to JLBC. Reporting to JLBC began in FY 2009.

Arizona Criminal Justice Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	9.0
Personal Services	351,200	611,600	611,600
Employee Related Expenditures	106,000	206,300	211,500
Professional and Outside Services	112,600	227,200	227,200
Travel - In State	5,300	11,300	11,300
Travel - Out of State	6,700	20,000	20,000
Other Operating Expenditures	76,000	157,800	157,800
Equipment	11,100	16,900	16,900
OPERATING SUBTOTAL	668,900	1,251,100	1,256,300
SPECIAL LINE ITEMS			
Felony Pretrial Intervention Programs	0	0	2,750,000 ^{1/2/}
State Aid to County Attorneys	934,500	973,700	973,700
Victim Compensation and Assistance	3,660,600	4,220,600	4,222,600
AGENCY TOTAL	5,264,000	6,445,400	9,202,600 ^{3/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	509,400	646,600	651,300
Drug and Gang Prevention Resource Center Fund	159,500	604,500	605,000
Inmate Store Proceeds Fund	0	0	750,000
Penitentiary Land Fund	0	0	1,000,000
State Aid to County Attorneys Fund	934,500	973,700	973,700 ^{4/}
State Charitable, Penal and Reformatory Institutions Land Fund	0	0	1,000,000
Victim Compensation and Assistance Fund	3,660,600	4,220,600	4,222,600 ^{5/}
SUBTOTAL - Other Appropriated Funds	5,264,000	6,445,400	9,202,600
SUBTOTAL - Appropriated Funds	5,264,000	6,445,400	9,202,600
Other Non-Appropriated Funds	5,927,300	7,126,500	5,274,500
Federal Funds	7,218,600	10,302,900	8,156,500
TOTAL - ALL SOURCES	18,409,900	23,874,800	22,633,600

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.

- ^{1/} Laws 2017, Chapter 286 appropriated \$2,750,000, including \$1,000,000 from the Penitentiary Land Fund, \$1,000,000 from the State Charitable, Penal and Reformatory Institutions Land Fund, and \$750,000 from the Inmate Store Proceeds Fund for Felony Pretrial Intervention Programs.
- ^{2/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{4/} All monies received by the Arizona Criminal Justice Commission in excess of \$973,700 in FY 2018 from the State Aid to County Attorneys Fund established by A.R.S. § 11-539 are appropriated to the State Aid to County Attorneys Program. Before the expenditure of any State Aid to County Attorneys Fund monies in excess of \$973,700, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{5/} All Victim Compensation and Assistance monies received by the Arizona Criminal Justice Commission in excess of \$4,222,600 in FY 2018 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance Fund monies in excess of \$4,222,600 in FY 2018, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

Operating Budget

The budget includes \$1,256,300 and 9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
CJEF	\$651,300
Drug and Gang Prevention Resource Center Fund	605,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$5,200 in FY 2018 for statewide adjustments. This amount consists of:

CJEF	4,700
Drug and Gang Prevention Resource Center Fund	500

(Please see the Agency Detail and Allocations section.)

Felony Pretrial Intervention Programs

Laws 2017, Chapter 286 appropriates \$2,750,000 in FY 2018 for Felony Pretrial Intervention Programs. This amount consists of:

Penitentiary Land Fund	1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,000,000
Inmate Store Proceeds Fund	750,000

This line item provides funding to county attorney offices for administering felony pretrial intervention programs. Monies are to be distributed proportionately to county attorney offices in all counties except Maricopa County. Felony pretrial intervention programs may provide substance abuse treatment including medically assisted treatment with mandatory drug testing, cognitive behavioral therapy, and case management services for non-dangerous, non-repeat offenders. Each felony pretrial intervention program treatment provider will provide the county attorney with a report on each offender's attendance record and whether an offender fails a drug test. ACJC may spend up to 1% of the monies for administrative expenses.

State Aid to County Attorneys

The budget includes \$973,700 from the State Aid to County Attorneys Fund in FY 2018 for State Aid to County Attorneys. This amount is unchanged from FY 2017.

This line item provides funding for the various offices of county attorneys throughout Arizona to improve the processing of criminal cases. The line item receives funds from a 15.44% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals. The Arizona Criminal Justice Commission (ACJC) is required to distribute the monies to each county based on a composite index formula using Superior Court felony filings and county population.

Victim Compensation and Assistance

The budget includes \$4,222,600 from the Victim Compensation and Assistance Fund in FY 2018 for Victim Compensation and Assistance. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,000 from the Victim Compensation and Assistance Fund in FY 2018 for statewide adjustments.

This line item provides funding for 2 crime victim grant programs: the Victim Compensation Program and the Victim Assistance Program. Victim compensation monies are distributed to county compensation boards that award cash compensation to crime victims for specified expenses resulting from their victimization. Revenues for victim compensation grant monies come from 3 sources: 4.6% CJEF distribution, inmate work fees, and unclaimed victim restitution. Victim assistance monies are granted to local government and not-for-profit agencies on a competitive basis and are used for operating expenses related to their victim assistance programs. Revenues for victim assistance grants come from community supervision fees and interstate compact fees.

Other Issues

Indigent Defense

The budget includes \$700,000 from the State Aid to Indigent Defense Fund in the Department of Public Safety (DPS) budget for operational costs associated with the Arizona Counter Terrorism Information Center. This amount is unchanged from FY 2017 for DPS.

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 2016 year-end fund balance, including the appropriations to the Attorney General and DPS, was \$66,600. The projected FY 2017 year-end fund balance, including the appropriation to DPS, is \$177,300. In FY 2018, projected annual revenues are \$803,200, sufficient to fund the \$700,000 DPS appropriation.

Anti-Racketeering Revolving Fund Report

A.R.S. § 13-2314.01 and A.R.S. § 13-2314.03 require the Attorney General and departments and state agencies, including counties, that use the Anti-Racketeering Revolving Fund (ARRF) to report quarterly to ACJC on the sources of all monies and all expenditures. The statutes further required ACJC to compile reports into a single comprehensive annual report and submit them by September 30 each year. This comprehensive report had not been provided in an annual format to the recipients established in statute for several years. The FY 2017 budget included a new footnote requiring ACJC to submit a report by August 31, 2016 on the reasons for the noncompliance with these statutorily-required reports.

In August 2016, ACJC reported to JLBC that, even though it posted quarterly reports to its website instead of providing a comprehensive annual report to the statutory recipients, it believed it was previously in compliance with statute. However, ACJC, noted that it would stop providing quarterly reports and instead submit a single comprehensive annual report to the statutory recipients in order to be in compliance with statute.

In October 2016, ACJC submitted its comprehensive annual report on ARRF to the statutory recipients. ACJC reported that, in FY 2016, the ARRF received revenues totaling \$63.6 million and had expenditures totaling \$66.1 million (including monies from prior year balances). Revenues for investigating and prosecuting agencies were highest in Maricopa County in FY 2016 at \$32.7 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2016 with \$33.4 million in ARRF monies spent.

Laws 2017, Chapter 250 changes the timeframe for ACJC's comprehensive report from annual to quarterly, effective October 1, 2017.

Laws 2017, Chapter 149 added new reporting requirements for ARRF. Chapter 149 requires additional details on ARRF monies, including information about the forfeiture cases and expenditures. The standard of proof for forfeitures is raised from preponderance of the evidence to clear and convincing evidence.

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

Arizona State Schools for the Deaf and the Blind

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
PROGRAM BUDGET			
Administration/Statewide	4,010,600	4,010,600	4,120,900
Phoenix Day School for the Deaf	10,022,700	10,054,500	10,343,400
Preschool/Outreach Programs	4,351,600	4,486,800	4,536,200
Regional Cooperatives	1,001,400	1,001,400	1,023,100
Tucson Campus	13,470,700	13,502,500	13,787,100
AGENCY TOTAL	32,857,000	33,055,800	33,810,700
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	541.2
Personal Services	17,599,900	17,504,500	17,504,500
Employee Related Expenditures	8,094,800	8,044,300	8,638,000
Professional and Outside Services	2,162,000	2,361,600	2,361,600
Travel - In State	89,900	89,500	89,500
Travel - Out of State	54,800	54,400	54,400
Food	5,000	5,000	5,000
Other Operating Expenditures	4,112,600	4,258,500	4,258,500
OPERATING SUBTOTAL	32,119,000	32,317,800	32,911,500
SPECIAL LINE ITEMS			
School Bus Replacement	738,000	738,000	738,000
Voucher Fund Adjustment	0	0	161,200
AGENCY TOTAL	32,857,000	33,055,800	33,810,700 ^{1/}
FUND SOURCES			
General Fund	21,378,100	21,378,100	21,932,000
<u>Other Appropriated Funds</u>			
Schools for the Deaf and the Blind Fund	11,478,900	11,677,700	11,878,700 ^{2/}
SUBTOTAL - Other Appropriated Funds	11,478,900	11,677,700	11,878,700
SUBTOTAL - Appropriated Funds	32,857,000	33,055,800	33,810,700
Other Non-Appropriated Funds	15,960,100	15,859,300	15,859,300
Federal Funds	2,079,000	2,079,000	2,079,000
TOTAL - ALL SOURCES	50,896,100	50,994,100	51,749,000

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. As of October 2016, ASDB served approximately 1,940 children: 404 students in the K-12 programs (138 in Tucson and 266 in Phoenix), 98 children in preschools, 348 infant/toddlers in regional areas, and 1,090 children through the 5 existing regional cooperatives.

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

^{2/} Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,878,700 in FY 2018, the Arizona State Schools for the Deaf and the Blind shall report to the Joint Legislative Budget Committee the intended use of the monies. (General Appropriation Act footnote, as adjusted for statewide allocations)

Operating Budget

The budget includes \$32,911,500 and 541.2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$21,194,000
Schools for the Deaf and the Blind Fund	11,717,500

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$593,700 in FY 2018 for statewide adjustments. This amounts consist of:

General Fund	\$553,900
Schools for the Deaf and the Blind Fund	39,800

(Please see the Agency Detail and Allocations section.)

Assistive Technology Devices

The budget includes no change in funding from the General Fund in FY 2018 for assistive technology devices. The budget includes a total of \$253,100 from the General Fund in FY 2018 for this equipment, which may include: electronic dictionaries for visually impaired students, mobile classroom computer labs for visually disabled students, interactive whiteboards for hearing impaired students, and computer and software upgrades for computers used by visually impaired students.

Foundation for Blind Children

The budget maintains funding in FY 2018 for the preschool program at the Foundation for Blind Children at the previously appropriated level of \$1,054,100.

School Bus Replacement

The budget includes \$738,000 from the General Fund in FY 2018 for School Bus Replacement. This amount is unchanged from FY 2017.

Monies in this line item are used for the purchase of new school buses. According to the School Facilities Board rules for ASDB, a gasoline-powered bus should be replaced after 10 years or 150,000 miles.

Voucher Fund Adjustment

The budget includes \$161,200 from the ASDB Fund in FY 2018 for enrollment changes. This amount funds the following adjustments:

Enrollment Change

The budget includes no change in funding from the ASDB Fund in FY 2018 for enrollment change. ASDB's FY 2017 appropriation assumed an enrollment of 510 students. Based on recent monthly data, the FY 2017 student enrollment is projected to be 511 students (virtually the same as the budgeted count). ASDB is projected to receive approximately \$11,677,700 in special education voucher funding in FY 2017. This amount has not been adjusted for FY 2018 as the FY 2017 revised enrollment estimate is effectively the same as the budgeted FY 2017 enrollment figure.

These estimates are based on enrollment trends shown in *Table 1. (Please see Other Issues for additional enrollment information.)*

Base Level Increase

The budget includes an increase of \$161,200 from the ASDB Fund in FY 2018 for a base level increase. A.R.S. § 15-901.01 requires annual increases in the per pupil "Base Level" in the Basic State Aid (BSA) formula. That BSA base level also serves as the base level for the ASDB Voucher Fund formula, so BSA base level increases also increase ASDB's voucher funding. The budget increases the BSA base level by 1.31% in FY 2018, which results in additional FY 2018 funding of \$161,200.

Background – Special education voucher monies in the ASDB Fund represent ASDB's reimbursement from the Arizona Department of Education (ADE) for educational costs based on its enrollment. As with school districts, ASDB's ADE funding is determined by statutory formula. The amounts are reflected within a separate line item to give ASDB flexibility in allocating funding changes among its 4 programs.

Other Issues

Additional Legislation

Statutory Revisions

Laws 2017, Chapter 63 modifies statutory requirements for ASDB, including the following:

- Strikes language listing qualifications for the ASDB Superintendent and for management and supervisory staff and instead allows the ASDB Board of Directors, subject to a public meeting, to determine qualifications for the ASDB Superintendent.
- Lowers the preferred right of reappointment for employees dismissed for economy or efficiency reasons from 3 years to 1 year.

- Requires the ASDB Superintendent to have a valid fingerprint clearance card.
- Removes the requirement for certificated employees to submit a second set of fingerprints for a criminal background check.

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.

ASDB received a total of \$424,400 in its land trust fund, the Schools for the Deaf and the Blind Fund, in FY 2015.

As approved by the voters in May 2016, Proposition 123 increased the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025. The fund will have estimated land trust revenues of \$680,600 in FY 2018.

If this causes the ASDB fund to exceed \$11,878,200 in expenditures, ASDB may expend these monies upon reporting to the Joint Legislative Budget Committee. *(See the standard footnote.)*

Enrollment Projections

Table 1 shows average annual enrollment data for ASDB’s Tucson, Phoenix, and Preschool campuses since FY 2014. FY 2017 estimates are based on reported enrollment through October 2016. The budget assumes that FY 2018 enrollment levels for ASDB will be unchanged from FY 2017.

Table 1 shows a substantial decrease in ASDB’s preschool population between FY 2014 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.

	ASDB Average Annual Enrollment			
	FY 2014	FY 2015	FY 2016	FY 2017
Tucson	177	158	138	129
Phoenix	283	274	266	283
Preschool	<u>113</u>	<u>97</u>	<u>98</u>	<u>99</u>
Total	573	529	502	511 ^{1/}

^{1/} Enrollment as of October 2016

Commission for the Deaf and the Hard of Hearing

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	15.0	15.0	16.0
Personal Services	894,500	907,900	952,900
Employee Related Expenditures	332,700	337,600	377,100
Professional and Outside Services	714,400	803,900	803,900
Travel - In State	11,400	11,100	12,600
Travel - Out of State	14,900	13,400	13,400
Other Operating Expenditures	1,518,600	2,110,200	2,143,200
Equipment	87,800	125,400	127,500
OPERATING SUBTOTAL	3,574,300	4,309,500	4,430,600
SPECIAL LINE ITEMS			
Support Services for the Deaf-Blind	0	0	192,000
AGENCY TOTAL	3,574,300	4,309,500	4,622,600 ^{1/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Telecommunication Fund for the Deaf	3,574,300	4,309,500	4,622,600
SUBTOTAL - Other Appropriated Funds	3,574,300	4,309,500	4,622,600
SUBTOTAL - Appropriated Funds	3,574,300	4,309,500	4,622,600
TOTAL - ALL SOURCES	3,574,300	4,309,500	4,622,600

AGENCY DESCRIPTION — The agency acts as an information and referral resource for the deaf and the hard of hearing and provides educational materials to the general public. The agency also administers a statewide telephone access program, the Telecommunication Devices for the Deaf (TDD) Relay Program. The agency licenses interpreters for the deaf and the hard of hearing. The agency is supported by the Telecommunication Fund for the Deaf, which derives monies from the Telecommunication Services Excise Tax.

Operating Budget

The budget includes \$4,430,600 and 16 FTE Positions from the Telecommunication Fund for the Deaf in FY 2018 for the operating budget. These amounts fund the following adjustments:

Hearing Aid Assistance Program

The budget includes an increase of \$102,800 and 1 FTE Position from the Telecommunication Fund for the Deaf in FY 2018 for a Hearing Aid Assistance Program. Of that amount, \$100,000 is ongoing and \$2,800 is one-time.

These monies will be used to help eligible low-income adults find existing programs to obtain hearing aids and other hearing healthcare related services.

Statewide Adjustments

The budget includes an increase of \$18,300 from the Telecommunication Fund for the Deaf in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Support Services for the Deaf-Blind

The budget includes \$192,000 from the Telecommunication Fund for the Deaf in FY 2018 for a new Support Services for the Deaf-Blind line item.

Monies in this line item will fund a new support services program which will provide 5 hours per week of support services to 35 deaf-blind adults. Deafblindness is any combination of visual and auditory loss which requires special strategies and skills. Examples of support services to be provided include transportation assistance, sighted guides, independent living assistance and communication facilitators.

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

Other Issues

Telecommunication Fund for the Deaf

The Telecommunication Fund for the Deaf is the primary funding source for the Commission for the Deaf and the Hard of Hearing. The fund derives its revenue from a 1.1% surcharge on landline telephone bills.

The fund balance has consistently increased over the past 5 years. From FY 2011 to FY 2016 the fund averaged \$5.0 million in annual ongoing revenues in comparison to \$4.1 million in annual expenditures. In FY 2016 the fund had a year-end balance of \$8.2 million. FY 2018 revenues are expected to be \$116,800 above FY 2018 expenditures, with an estimated year-end balance of \$8.7 million.

State Board of Dental Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	500,300	547,300	547,300
Employee Related Expenditures	226,000	149,600	165,000
Professional and Outside Services	164,700	299,200	299,200
Travel - In State	3,400	3,200	3,200
Travel - Out of State	6,400	5,500	5,500
Other Operating Expenditures	193,300	186,000	186,000
Equipment	40,100	23,700	23,700
AGENCY TOTAL	1,134,200	1,214,500	1,229,900 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Dental Board Fund	1,134,200	1,214,500	1,229,900
SUBTOTAL - Other Appropriated Funds	1,134,200	1,214,500	1,229,900
SUBTOTAL - Appropriated Funds	1,134,200	1,214,500	1,229,900
TOTAL - ALL SOURCES	1,134,200	1,214,500	1,229,900

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of dentists, denturists, dental hygienists and dental assistants.

Operating Budget

The budget includes \$1,229,900 and 11 FTE Positions from the Dental Board Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$15,400 from the Dental Board Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Arizona Early Childhood Development and Health Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	124,439,900	133,360,200	145,650,700
Federal Funds	3,667,000	8,366,200	7,298,200
TOTAL - ALL SOURCES	128,106,900	141,726,400	152,948,900

AGENCY DESCRIPTION — As authorized by a 2006 ballot initiative (Proposition 203), the Arizona Early Childhood Development and Health Board (ECDHB) is funded from an 80 cents per pack cigarette tax, plus taxes on other tobacco products. The board funds early childhood development programs and services for children prior to kindergarten and their families. The agency is also commonly known as “First Things First.”

Background

Early Childhood Development and Health Fund

Enacted in 2006, Proposition 203 implemented an additional 80 cents per pack cigarette tax to fund ECDHB, also known as “First Things First.” Revenues from the tobacco tax are deposited into the Early Childhood Development and Health (ECDH) Fund and go into 2 accounts: 90% of funds are allocated to the Program Account and 10% of funds to the Administrative Costs Account.

Of the annual Program Account budget set by the board each year, 10% (or 9% of the statewide total) may be spent on statewide programs with the remaining funds allocated to the Regional Councils (81% of the statewide total). Of the amount made available to regions, 60.8% is allocated to the various regions based on the total population aged 5 and under and the population under 5 living below the poverty line. The board uses its discretion to allocate the other 20.2% to regions.

In FY 2016, ECDHB’s largest expenditure was **Child Care Scholarships** at \$59.8 million, as displayed in *Table 1*, serving an average of 5,264 children monthly, down from 7,728 in FY 2015. ECDHB increased its child care reimbursement rates for FY 2016, so fewer children were served even though child care expenditures were greater than the prior year.

State-funded child care is provided through 3 agencies: the Department of Economic Security (DES), the Department of Child Safety (DCS), and ECDHB. DES and ECDHB provide child care for lower-income working families, while DCS provides child care for child welfare cases. ECDHB requires lower-income families to accept a DES subsidy if it is available. DES child care is offered as only a partial subsidy requiring a family copayment that varies based on a family’s income level. ECDHB lower-

income working child care is offered as a full “scholarship” without a copayment.

Table 1

FY 2016 ECDHB Fund Expenditures by Category
(\$ in Millions)

<u>Expenditure Category</u>	<u>Amount</u>	<u>Percent</u>
Child Care Scholarships	\$ 59.8	48%
Family Support	30.7	25%
Health	13.6	11%
Administration	9.3	7%
Professional Development	5.7	5%
Community Awareness	1.8	1%
Research & Evaluation	2.7	2%
System Coordination	0.8	1%
Total	\$124.4	100%

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 2017 expenditures leave the fund with a projected balance of \$363.9 million at the end of FY 2017. 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.

	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Revenues				
Beginning Balance	\$396.9	\$364.1	\$370.9	\$363.9
Ongoing Revenues	<u>128.2</u>	<u>131.2</u>	<u>126.4</u>	<u>124.3</u>
Total Revenues	\$525.1	\$495.4	\$497.3	\$488.2
Expenditures				
Administrative	\$ 12.9	\$ 12.9	\$ 14.5	\$ 14.5
Program ^{3/}	<u>148.1</u>	<u>111.5</u>	<u>118.9</u>	<u>131.2</u>
Total Expenditures	\$161.0	\$124.4	\$133.4	\$145.7
Ending Balance	\$364.1	\$370.9	\$363.9	\$342.5
^{1/} Data from ECDHB. ^{2/} Numbers may not add due to rounding. ^{3/} Includes \$18.5 million from administrative account carry-forward balances that will be spent on programmatic efforts in FY 2016.				

Other Issues

Additional Legislation

Joint Report on Child Welfare

The FY 2018 Human Services Budget Reconciliation Bill (Laws 2017, Chapter 311) continues to require ECDHB to report by February 1, 2018 with DCS on their collaborative efforts to address child welfare issues of common concern.

Office of Economic Opportunity

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	0.0	5.0
Personal Services	0	386,200	326,800
Employee Related Expenditures	0	164,300	139,100
Travel - Out of State	0	4,000	4,000
Other Operating Expenditures	0	14,200	14,200
OPERATING SUBTOTAL	0	568,700	484,100
SPECIAL LINE ITEMS			
Small Water Systems Fund Deposit	0	500,000	0
AGENCY TOTAL	0	1,068,700	484,100 ^{1/}
FUND SOURCES			
General Fund	0	1,068,700	484,100
SUBTOTAL - Appropriated Funds	0	1,068,700	484,100
Other Non-Appropriated Funds	0	179,352,200	179,358,000
Federal Funds	0	29,967,700	29,967,700
TOTAL - ALL SOURCES	0	210,388,600	209,809,800

AGENCY DESCRIPTION — Laws 2016, Chapter 372 created the Office of Economic Opportunity (OEO), which is responsible for monitoring the state's tax competitiveness, evaluating the effectiveness of state incentive programs, analyzing state and local regulatory costs to businesses, serving as the state's workforce planning coordinator, and providing economic and demographic research and analysis. Also established within OEO is the Arizona Finance Authority, which oversees the Water Infrastructure Finance Authority (WIFA) and the Greater Arizona Development Authority (GADA) in addition to being the state recipient of private activity bonding authority. Additionally, OEO oversees the Arizona Industrial Development Authority which is the sole state issuer of private activity bonds.

Operating Budget

The budget includes \$484,100 and 5 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(84,600) from the General Fund in FY 2018 for the elimination of one-time monies used for the development of a regulatory cost model.

Small Water Systems Fund Deposit

The budget includes no funding in FY 2018 for a one-time deposit into the Small Water Systems Fund. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2018 for the elimination of a one-time deposit into the Small Water Systems Fund.

The FY 2017 General Appropriation Act included provisions exempting the FY 2017 \$500,000 General Fund appropriation from procurement code law, making the appropriation non-lapsing, and requiring the Corporation Commission and WIFA to report to JLBC by August 1, 2017 on the amount of emergency grants made to interim operators of small water systems during FY 2017.

On recommendation of the Corporation Commission, WIFA may approve a grant to repair a small water system or replace infrastructure of a small water system that serves 500 or fewer connections.

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

Other Issues

Additional Legislation

Laws 2017, Chapter 213 renames the Small Water Systems Fund the Small Drinking Water Systems Fund and makes other changes to the fund and its administration including:

- Establishing the requirement that WIFA enter into agreements with grantees that require certain levels of performance.
- Expanding grant eligibility to general grants from emergency grants and to owners of small water systems from the prior requirement of the recipient being an interim operator.
- Permitting WIFA to consult with the Department of Environmental Quality prior to issuing a grant.
- Altering the threshold for grant eligibility from 500 connections to 10,000 persons that can be serviced by the small water system.
- Requiring WIFA to certify the public benefit of a grant.

The Small Water Systems Fund was previously used to issue emergency grants to small public water systems that were run by appointed interim operators.

Office of Economic Opportunity Creation

Laws 2016, Chapter 372 created 3 new governmental entities: the Office of Economic Opportunity (OEO), the Arizona Finance Authority (AFA), and the Arizona Industrial Development Authority (AIDA). AFA is established in OEO and the AFA board serves as the board of AIDA, thus OEO has supervision over all 3 entities. *Table 1* below displays the estimated FY 2018 FTE allocations and expenditures for each of the 3 newly-created entities as reported by the agencies.

<u>Recipient</u>	<u>FTE Positions</u>	<u>Total Funds</u>
OEO	30.6	\$ 4,779,400
AFA	19.6	205,030,400
AIDA ^{1/}	<u>3.5</u>	<u>3,120,200</u>
Total	53.7	\$212,930,000

^{1/} AIDA amounts are an estimate as these figures were not reported in the AFA budget. Additionally, AIDA amounts are not reflected in the above agency summary table as those monies will be stored in bank accounts of AIDA rather than in state funds.

OEO

OEO is the central state agency for economic, population, and unemployment statistical analysis, the administering agency for the Workforce Arizona Council, and oversees the newly-created Workforce Data Task Force.

OEO's statistical analysis arm is comprised of the Employment and Population Statistics unit from the Arizona Department of Administration (ADOA) and an economist from the Governor's Regulatory Review Council (GRRC). OEO is also required to enter into a memorandum of understanding with the Department of Economic Security (DES) to access unemployment insurance data for research purposes. The employment, population, and unemployment insurance data will be used to help develop analyses that evaluate the state's competitiveness regarding incentive, tax, and regulatory policy.

The Workforce Arizona Council, transferred from the Arizona Commerce Authority (ACA), will develop a state workforce plan, review statewide policies and programs that affect workforce development, and develop allocation formulas for employment and training grants.

The newly-created Workforce Data Task Force will oversee the development and maintenance of the state workforce evaluation data system. The data collected on the workforce programs will be used by the task force to determine the most efficient ways to allocate funds and enhance performance of existing programs.

OEO's funding is provided through the transfer of resources tied to the functions shifted to OEO and fees paid to the Corporation Commission for securities filings that were previously deposited into the Arizona Competes Fund. Of these amounts, only the Corporation Commission fees will be deposited into the newly-created OEO Operations Fund. Remaining monies are either appropriated (General Fund), Federal monies that will be accounted for separately, or are being transferred to OEO's IGA and ISA Fund. In total, \$568,700 from the General Fund and \$4,891,700 in total funds was transferred to OEO. Of that amount, ADOA transferred \$568,700 from the General Fund and \$2,361,400 in total funds. This transfer reflects the following shifts:

ADOA

- Office of Employment and Statistics – The entire office moved to OEO including its 16.6 FTE Positions and funding of \$362,100 General Fund, \$104,600 IGA and ISA Fund, and \$1,688,100 Federal Funds.
- Governor's Regulatory Review Council – 1 FTE Position and \$206,600 General Fund (\$84,600 of this

amount was one-time to help develop a regulatory cost model).

Also included in the \$4,871,900 in total funds transferred to OEO are shifts of \$2,426,300 from ACA and \$104,000 from the Department of Economic Security (DES). These shifts are as follows:

ACA

- Workforce Arizona Council and Workforce Division – The entire Workforce Arizona Council and Workforce Division of ACA transferred along with 4 FTE Positions and \$458,000 in Federal Funds for the operation of these programs.
- Corporation Commission Fees – \$1,968,300 in Corporation Commission filings fees for securities that were previously deposited into the Arizona Competes Fund. These monies fund an estimated 8 FTE Positions.

DES

- Workforce Innovation Opportunity Act Resources – 1 FTE Position and \$104,000 in Federal Funds.

Of these transferred amounts, OEO is estimating annual expenditures of \$4,864,000 in FY 2017 and \$4,779,400 in FY 2018 due to the removal of one-time monies. *Table 2* displays OEO's estimated expenditures for FY 2018 by fund source and transferring agency.

Transferring Agency Fund Source	FY 2018
ADOA	
General Fund	\$ 484,100
IGA & ISA Fund	79,900
Federal Funds	<u>1,685,800</u>
Total ADOA	\$2,249,800
ACA	
Corporation Commission Fees	\$1,968,300
Federal Funds	<u>457,400</u>
Total ACA	\$2,425,700
DES	
Federal Funds	<u>\$ 103,900</u>
Total DES	\$ 103,900
OEO TOTAL	\$4,779,400^{1/}
^{1/} This amount funds an estimated 30.6 FTE Positions.	

The bill also established the Economic Development Fund consisting of any remaining monies in the AFA Operations Fund or AIDA at the end of each prior fiscal year. The Economic Development Fund is estimated to receive a

total of \$5,710,500 in FY 2018. Since these monies represent excess balances from state Industrial Development Authorities (IDAs) that were folded into the AIDA, it is estimated that any transfers beyond FY 2018 into the Economic Development Fund will be minimal.

AFA

Additionally, the bill created AFA by consolidating the functions of WIFA and the Greater Arizona Development Authority (GADA) under the authority of the AFA Board and tasking AFA with the administration of the state's Private Activity Bond (PAB) authorization.

WIFA finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities or projects. GADA helps local governments obtain lower than market interest rates on debt incurred for infrastructure development and construction by using the GADA Revolving Fund to guarantee loans.

The state's PAB authorization, transferred from ACA, is the annual amount of tax exempt bonds issued by the federal government to the state for certain private industry use. As the state's recipient of the PAB authorization, AFA issues PAB authority to local IDAs to allow the IDAs to issue bonds on behalf of a private entity that will utilize the proceeds for projects such as school or multi-family home construction, mortgage revenue bonds, manufacturing projects, and qualified student loan projects.

Funding for the operational costs of AFA is derived from unrestricted and available monies of WIFA and GADA, bond proceeds from issuances of the AIDA, and gifts and grants. Monies received from these sources are to be deposited into the newly-created AFA Operations Fund.

AFA is expected to oversee \$205,030,400 in expenditures in FY 2018 (*see Table 3*).

The AFA is also responsible for the Clean Water Revolving Fund (\$111,626,900) and the Drinking Water Revolving Fund (\$65,458,800). These 2 funds provide loans to political subdivisions and Indian tribes for drinking water facilities and capital improvements at wastewater treatment facilities. Additionally, AFA will also administer Federal Funds (\$27,720,600) that provide water infrastructure loans to local governments and Indian tribes.

AFA will also expend an estimated \$211,200 for 1.7 FTE Positions from the GADA Revolving Fund to oversee the loan and bonding operations of GADA. This amount is small relative to the amounts expended from the Clean

Water Revolving and Drinking Water Revolving Funds since the vast majority of the fund balance in the GADA Revolving Fund is used as collateral for the bonds they issue and is only directly loaned out in small amounts. Currently, the fund balance allows locals to bond at a rate of 30:1 while also providing a lower-than-market rate of interest. The FY 2017 estimated ending balance for the GADA Revolving Fund is \$13,269,500 which will allow for bonding of up to \$398,085,000 at the current leverage ratio.

Laws 2016, Chapter 372 establishes the AFA Operations Fund with revenues from legislative appropriations, bond proceeds, gifts, grants, donations, and available monies of WIFA and GADA. Monies in the fund are to be used to cover the expenses of the AFA. AFA has indicated that they do not intend to transfer any available monies from WIFA or GADA to the AFA Operations Fund in FY 2017 or FY 2018. Rather, AFA expects fees derived from the issuance of bonding authority to be sufficient enough to cover any operational costs of the AFA. Through May 31, 2016, the AFA Operations Fund received revenues of \$79,800 and had expenditures of \$7,100. AFA estimates the same amount of revenue in FY 2018 and expenditures of \$12,900.

AIDA

Lastly, the bill also authorized AFA to establish and govern the AIDA, which will consolidate the activities of the Arizona Housing Finance Authority, Arizona Health Facilities Authority, and Arizona International Development Authority in addition to issuing PABs for allowable projects not otherwise covered by the other state IDAs. As a result of the consolidation, all of the existing assets of the 3 state IDAs became assets of AIDA. The shifting of resources from the 3 consolidated IDAs to AIDA allows for 3.5 FTE Positions and estimated expenditures of \$3,120,300 in FY 2018. These estimates are based on prior years' expenditures from the 3 consolidated IDAs as AFA did not provide an estimate of the operational costs of AIDA. Also, these estimated expenditures are not reflected in the OEO summary table as the funds will be deposited into a bank account of AIDA rather than in a state fund.

In addition to these amounts, AIDA will receive a one-time transfer of \$5,929,400 in unobligated monies in FY 2017 from the 3 consolidated state IDAs. We estimate that revenues to AIDA will not fully cover expenditures in FY 2017 which will result in AIDA having an estimated FY 2017 ending balance of \$5,710,500. Laws 2016, Chapter 372 requires that any unobligated monies within AIDA be transferred to the Economic Development Fund at the end of each fiscal year. As a result, we estimate that all of the \$5,710,500 FY 2017 ending balance within AIDA would be transferred to the OEO-administered Economic Development Fund in FY 2018. *(Please see the OEO section of this narrative for more information.)* Table 4 summarizes the estimated FY 2017 and FY 2018 expenditures of AIDA.

Table 3
AFA FY 2018 Estimated Expenditures

<u>Agency/Fund Source</u>	<u>FY 2018</u>
<u>WIFA</u>	
Clean Water Revolving Fund	\$ 111,626,900
Drinking Water Revolving Fund	65,458,800
Federal Funds	<u>27,720,600</u>
Total WIFA	\$ 204,806,300
<u>GADA</u>	
GADA Revolving Fund	\$ 211,200
Total GADA	\$ 211,200
<u>AFA</u>	
AFA Operations Fund	\$ 12,900
AFA TOTAL	\$ 205,030,400 ^{1/}

^{1/} This amount funds an estimated 19.6 FTE Positions.

Table 4
AIDA FY 2018 Expenditures

<u>Fund Source</u>	<u>FY 2018</u>
<u>AIDA</u>	
IGA & ISA Fund	<u>\$3,120,300</u>
Total AIDA	\$3,120,300 ^{1/2/3/}

- ^{1/} This amount funds an estimated 3.5 FTE Positions.
- ^{2/} AFA did not provide an estimate for AIDA's FY 2018 expenditures. This amount is an estimate based on prior years' expenditures from the 3 consolidated IDAs.
- ^{3/} This amount is not reflected in the OEO summary table as the monies will be deposited into an AIDA bank account rather than a state fund.

Department of Economic Security

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,147.7	4,218.0	4,289.4 ^{1/}
Personal Services	66,864,200	75,767,400	75,410,800
Employee Related Expenditures	30,113,600	34,537,200	35,414,800
Professional and Outside Services	21,656,400	17,240,500	17,240,500
Travel - In State	911,300	935,800	953,600
Travel - Out of State	43,200	83,200	83,200
Other Operating Expenditures	24,353,700	26,017,100	25,987,900
Equipment	3,465,500	4,679,600	4,995,700
OPERATING SUBTOTAL	147,407,900	159,260,800	160,086,500 ^{2/3/}
SPECIAL LINE ITEMS			
Administration			
ABLE Program	0	240,000	0
Attorney General Legal Services	10,105,600	10,996,600	11,004,000
Aging and Adult Services			
Adult Services	7,924,100	8,624,100	9,431,900
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	12,371,200	14,003,700	14,003,700 ^{4/5/}
Benefits and Medical Eligibility			
TANF Cash Benefits	28,299,100	27,736,400	27,736,400
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	4,030,600	8,740,200	8,740,200
Developmental Disabilities ^{6/7/8/9/10/}			
DDD Operating Lump Sum	54,176,700	49,477,100	23,819,600 ^{11/}
DDD Premium Tax Payment	0	0	27,628,800
Case Management - Medicaid	56,468,300	55,347,700	59,316,300 ^{11/}
Home and Community Based Services - Medicaid	811,270,700	1,019,737,300	1,163,987,200
Institutional Services - Medicaid	20,192,500	22,610,900	24,133,300
Medical Services - Medicaid	151,491,200	165,514,500	176,526,600
Arizona Training Program at Coolidge - Medicaid	15,209,500	15,735,100	15,821,400 ^{8/}
Medicare Clawback Payments	2,928,700	3,370,600	4,043,000
Case Management - State Only	3,912,700	3,893,700	3,913,000 ^{11/}
Home and Community Based Services - State Only	17,096,800	17,340,400	20,028,000
State-Funded Long Term Care Services	27,554,000	27,159,600	28,561,500
Employment and Rehabilitation Services			
JOBS	9,796,200	13,005,600	11,005,600
Child Care Subsidy	84,181,500	98,396,600	98,396,600 ^{12/}
Rehabilitation Services	4,799,100	7,249,100	7,249,100
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
Workforce Investment Act Services	32,591,200	51,654,600	53,654,600 ^{13/}
AGENCY TOTAL	1,515,778,500	1,794,065,500 ^{14/}	1,963,058,200 ^{15/-17/}
FUND SOURCES			
General Fund	502,938,100	538,272,200	586,110,300
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	14,791,200	16,632,600	17,267,400
Domestic Violence Services Fund	2,500,000	4,000,000	4,000,000 ^{4/5/}

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
Federal CCDF Block Grant	93,558,500	107,773,600	107,773,600
Federal TANF Block Grant	70,816,200	72,964,700	72,964,700
Health Services Lottery Monies Fund	0	700,000	2,800,000
Long Term Care System Fund (Non-Federal Matched)	27,901,000	26,559,600	26,561,500
Public Assistance Collections Fund	11,000	421,900	422,100
Special Administration Fund	2,939,700	5,528,700	2,951,800
Spinal and Head Injuries Trust Fund	1,870,000	2,323,700	2,326,400
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	1,000,000
Workforce Investment Act Grant	36,456,400	56,040,200	56,040,200 ^{13/}
SUBTOTAL - Other Appropriated Funds	251,844,000	293,945,000	294,107,700
SUBTOTAL - Appropriated Funds	754,782,100	832,217,200	880,218,000
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	28,821,200	42,299,500	42,299,500
Long Term Care System Fund (Federal Match)	732,175,200	919,548,800	1,040,540,700
SUBTOTAL - Expenditure Authority Funds	760,996,400	961,848,300	1,082,840,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,515,778,500	1,794,065,500	1,963,058,200
Other Non-Appropriated Funds	306,744,000	323,045,700	311,964,900
Federal Funds	1,923,561,600	1,939,158,100	1,939,158,100
TOTAL - ALL SOURCES	3,746,084,100	4,056,269,300	4,214,181,200

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 Adult Services; and Employment and Rehabilitation Services.

- 1/ Includes 677.4 GF, 237.6 OF, and 1,500 EA FTE Positions funded from Special Line Items in FY 2018.
- 2/ The operating lump sum appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)
- 3/ All state shares of retained earnings, fees and federal incentives in excess of \$17,267,400 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New FTE Positions may be authorized with the increased funding. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 4/ All Domestic Violence Services Fund monies in excess of \$4,000,000 received by the Department of Economic Security are appropriated for the Domestic Violence Prevention line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$4,000,000 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 5/ 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, 2017. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- 6/ The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care System, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments that are not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriation Act footnote)
- 8/ The department shall report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee any new placement into a state-owned ICF-IID or the Arizona Training Program at the Coolidge campus in FY 2018 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, 2018. (General Appropriation Act footnote)
- 9/ The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review of any new Division of Developmental Disabilities salary adjustments not previously reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

Summary

The Department of Economic Security's (DES) FY 2018 General Fund spending increased by \$47,838,100, or 8.9% above the FY 2017 appropriation. This amount includes:

- \$22,499,300 for ongoing DDD provider rate adjustments associated with minimum wage and paid sick leave requirements of Proposition 206.
- \$12,000,000 in one-time additional assistance to DDD providers for Proposition 206 costs and state-only room and board expenses.
- \$18,644,500 for DDD formula adjustments, including caseload growth, capitation rate adjustments, and changes in the federal match rate.
- \$2,000,000 for the Arizona Early Intervention Program.
- \$807,800 for Area Agencies on Aging in-home service provider rate adjustments associated with Proposition 206.
- \$(8,147,800) to remove a one-time supplemental appropriation from FY 2017.
- \$(340,000) to remove FY 2017 spending designated as one-time.
- \$374,300 for statewide adjustments.

Operating Budget

The budget includes \$160,086,500 and 1,874.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

- 10/ The department shall report to the Joint Legislative Budget Committee on or before August 1, 2017 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2017. The department shall submit an expenditure plan of its staffing levels for review by the Joint Legislative Budget Committee if the department plans on hiring staff for non-case manager, non-case aide, non-case unit supervisor and non-case section manager positions above the staffing level indicated in the August 1, 2017 report. (General Appropriation Act footnote)
- 11/ 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. (General Appropriation Act footnote)
- 12/ 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 that qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I. (General Appropriation Act footnote)
- 13/ All Workforce Investment Act Grant monies that are received by this state in excess of \$56,040,200 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$56,040,200 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 14/ The Department of Economic Security may use up to \$25,000,000 from the Budget Stabilization Fund established by A.R.S. § 35-144 for the purpose of providing funding for reimbursement grants. Notwithstanding any other law, this appropriation must be fully reimbursed on or before September 1, 2017 and must be reimbursed in full as part of the closing process for FY 2017. The appropriation may not be used for additional programmatic expenditures. (General Appropriation Act footnote)
- 15/ The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security pursuant to A.R.S. § 42-5029. (General Appropriation Act footnote)
- 16/ The department shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and potential federal and other monies, such as the statewide assessment for indirect costs, and any projected surplus in state-supported programs that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 17/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.

FY 2018

General Fund	\$78,441,200
Child Support Enforcement Administration Fund	13,741,400
Child Support Enforcement Administration Fund (EA)	27,542,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,315,500
Federal Child Care and Development Fund (CCDF) Block Grant	12,077,100
Health Services Lottery Monies Fund	2,000,000
Public Assistance Collections Fund	331,300
Special Administration Fund	1,715,900
Spinal and Head Injuries Trust Fund	546,300
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,375,600

These amounts fund the following adjustments:

Maintain One-Time Funding for APS

The budget continues to include \$2,000,000 for Adult Protective Services Caseworkers. The FY 2017 appropriation was funded out of the Special Administration Fund, while in FY 2018 it is funded with the Health Services Lottery Monies Fund. The enacted FY 2018 budget's 3-year spending plan designates this spending as one-time.

Statewide Adjustments

The budget includes an increase of \$825,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	164,900
Child Support Enforcement Administration Fund	634,800
Public Assistance Collections Fund	200
Special Administration Fund	23,100
Spinal and Head Injuries Trust Fund	2,700

(Please see the Agency Detail and Allocations section.)

Administration

ABLE Program

The budget includes no funding in FY 2018 for the ABLE Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(240,000) from the General Fund in FY 2018 to remove one-time funding for the Achieving a Better Life Experience (ABLE) program.

Monies in this line item support the administration of ABLE 529A accounts, which allow individuals to deduct interest earned on monies deposited into accounts used for qualifying expenses of a physically or developmentally disabled beneficiary. The interest can be deducted on both federal and state income taxes. Individuals may contribute up to \$14,000 to an ABLE account annually.

Attorney General Legal Services

The budget includes \$11,004,000 and 156.9 FTE Positions in FY 2018 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,229,300
Child Support Enforcement Administration Fund	2,446,900
Child Support Enforcement Administration Fund (EA)	7,096,200
Federal TANF Block Grant	106,100
Federal CCDF Block Grant	17,700
Public Assistance Collections Fund	90,800
Special Administration Fund	5,000
Spinal and Head Injuries Trust Fund	2,000
Workforce Investment Act Grant	10,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,400 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item fund all AG legal services for the department.

Aging and Adult Services

Adult Services

The budget includes \$9,431,900 from the General Fund in FY 2018 for Adult Services. This amount funds the following adjustments:

Maintain One-Time Funding for Adult Services

The budget continues to include \$700,000 from the Health Services Lottery Monies Fund in FY 2018 for one-time funding of in-home services for the elderly provided by the Area Agencies on Aging. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time, but the budget continues to include this funding through FY 2018.

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$807,800 from the General Fund in FY 2018 for home and community-based services provider rate adjustments associated with Proposition 206 minimum wage and paid sick leave requirements. These services are funded by the Area Agencies on Aging. (Please see Other Issues for additional information.)

This line item provides an array of independent living support to elderly persons, as shown in Table 1.

Services	FY 2018 ^{1/}
Adult Protective Contracted Services	\$ 322,700
Supplemental Payments	85,300
Home Care	4,820,100
Older Americans Act	1,905,700
Assessments and Case Management	1,792,700
Respite Care	505,300
Total	\$9,431,900

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

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2018 for Community and Emergency Services. This amount is unchanged from FY 2017.

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 2016, this line item provided short-term crisis services to 1,477 households, energy assistance to 31,956 households.

Coordinated Homeless Services

The budget includes \$2,522,600 in FY 2018 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 2017.

In FY 2016, this line item provided emergency shelter services to 9,613 individuals, rapid re-housing services to 1,811 individuals, and homeless prevention services to 93 individuals.

Domestic Violence Prevention

The budget includes \$14,003,700 in FY 2018 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,000
Federal TANF Block Grant	6,620,700
Domestic Violence Services Fund	4,000,000
Health Services Lottery Monies Fund	100,000

These amounts fund the following adjustments:

Maintain One-Time Funding

The budget includes no net funding change to continue one-time funding for domestic violence prevention. This amount consists of:

General Fund	(100,000)
Health Services Lottery Monies Fund	100,000

The budget also continues to fund \$1,500,000 from the Domestic Violence Services Fund. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

In FY 2016, this line item, along with non-appropriated funds, served approximately 7,121 women and children in emergency shelters, 307 women and children in transitional housing, and 13,979 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$27,736,400 from the Federal TANF Block Grant in FY 2018 for TANF Cash Benefits. This amount is unchanged from FY 2017.

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. As of May 2017, DES served a regular TANF Cash Benefits caseload of 17,572 individual recipients. The budget assumes a regular caseload level of 17,763 per month. The average cost per person is projected to be \$92. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial crisis. The budget assumes a Diversion caseload of 740 per month. The May 2017 Diversion caseload was 749. The average Diversion payment per person is projected to be \$765. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

Laws 2017 Chapter 330 expands the definition of a TANF "child-only" case to include foster children under the jurisdiction of a tribal court or tribal child welfare agency. Additionally, the bill expands eligibility to children in unlicensed non-relative caretakers. DES estimates this change will result in an annual \$375,000 increase of TANF expenditures. The budget does not include additional funding for this change.

As a result of Laws 2017, Chapter 323, the current 12-month cumulative lifetime limit on regular TANF Cash Benefits will increase to 24 months beginning in FY 2018. In order to qualify for the second year of eligibility a recipient must have received no penalties for violating the work and school attendance requirements. In addition, Chapter 323 lowers the number of penalties, from 3 to 2, that a recipient can accumulate before being removed from the program.

DES estimates that the bill will increase the caseload by an additional 2,300 individuals receiving benefits at a cost of \$2.8 million in annual TANF expenditures. The budget does not include additional funding for the expansion.

As a permanent law, Laws 2017, Chapter 317 eliminates the requirement that beneficiaries of TANF Cash Benefits and Supplemental Nutrition Assistance (SNAP) submit to fingerprint imaging.

The FY 2018 Health and Human Services Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 311) continues a provision allowing DES to drug test TANF recipients if there is a reasonable suspicion that they are using illegal drugs.

Coordinated Hunger Services

The budget includes \$1,754,600 in FY 2018 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 2017.

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 2016, this funding assisted in the distribution of 4,840,050 congregate meals and 1,700,946 emergency food boxes.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2018 for Tribal Pass-Through Funding. This amount is unchanged from FY 2017.

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.

Sources	FY 2018
State Share of Retained Earnings	2,751,500
Federal Incentive Payments	6,200,000
Fees	1,769,000
Excess Appropriation Authority ^{1/}	5,912,100
Administration (Non-Appropriated)	<u>2,901,800</u>
Total	\$19,534,400
Uses	
DCSE Administration (DES Operating)	\$13,106,600
Attorney General Legal Services	2,446,900
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,901,800</u>
Total	\$19,534,400

^{1/} This line is the difference between appropriation authority and expected revenues.

County Participation

The budget includes \$8,740,200 in FY 2018 for County Participation. This amount consists of:

CSEA Fund	1,079,100
CSEA Fund (EA)	7,661,100

These amounts are unchanged from FY 2017.

The division currently contracts with Gila and La Paz Counties to have the counties operate their own child support programs. Beginning in July 2017, DES will take over operations of the Navajo County program from the county. 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 LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund. The Legislature appropriates the division's resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available to the Division of Developmental Disabilities but does not appropriate any specific non-appropriated fund.

As of April 2017, the Division of Developmental Disabilities served 38,957 clients, which includes 30,662 clients in the LTC program and 8,295 clients in the state-only portion. The primary disabilities are shown in *Table 3*.

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	15,750	40.4%
Autism	9,459	24.3%
At Risk	8,715	22.4%
Cerebral Palsy	3,385	8.7%
Epilepsy	<u>1,648</u>	4.2%
Total	38,957	

Overall DES Formula Adjustments

The budget includes an increase of \$18,644,500 from the General Fund in FY 2018 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2019 and FY 2020 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 budget includes a decrease of \$(7,344,400) from the General Fund in FY 2018 for an increase in the Federal Medical Assistance Percentage (FMAP). The 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 2018, the Medicaid FMAP is projected to increase to 69.73% (0.57% increase).

FY 2018 Caseload Growth

The budget includes a net increase of \$16,522,900 from the General Fund in FY 2018 for DD caseload changes. Compared to June 2017, LTC caseloads are expected to grow by 4.5% to a level of 32,277 by June 2018 (this amount excludes state-only clients).

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to HCBS, Case Management, and Medical Services, 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 these services in any particular month.

<u>Line Item</u>	<u>FY 16</u>	<u>FY 17 Est</u>	<u>FY 18 Est</u>
Home and Community Based Services	26,211	27,586	28,841
Institutional Services	113	113	113
AZ Training Program at Coolidge	86	81	76
Subtotal	<u>26,410</u>	<u>27,780</u>	<u>29,030</u>
Case Management and Medical Services only	<u>2,973</u>	<u>3,107</u>	<u>3,247</u>
Total	29,383	30,887	32,277

FY 2018 Capitation Rate Adjustments

The budget includes an increase of \$9,730,300 from the General Fund in FY 2018 for a 2.5% net capitation rate increase beginning July 1, 2017. Capitation rates include adjustments for medical inflation, utilization of services, and other factors.

The capitation adjustment does not include a dedicated provider rate adjustment. Funding for provider rate adjustments associated with Proposition 206 is allocated separately from formula adjustments. *(Please see Other Issues for additional information.)*

Health Insurer Fee Moratorium

The budget includes a one-time General Fund decrease of \$(936,700) in FY 2018 associated with the moratorium on the ACA Health Insurer Fee in FY 2018. *(Please see the AHCCCS narrative for additional information.)*

Medicare Clawback

The budget includes an increase of \$672,400 from the General Fund in FY 2018 for adjustments associated with Medicare Clawback Payments.

DDD Operating Lump Sum

The budget includes \$23,819,600 and 294.3 FTE Positions in FY 2018 for the DDD Operating Lump Sum. These amounts consist of:

General Fund	7,208,900
Long Term Care System Fund	16,610,700

These amounts fund the following adjustments:

Move Premium Tax to Separate Line Item

The budget includes a decrease of \$(25,784,100) in FY 2018 to create a new line item for the DDD premium tax payment. This amount consists of:

General Fund	(7,804,800)
Long Term Care System Fund	(17,979,300)

Formula Adjustments

The budget includes a decrease of \$(280,200) from the General Fund and a corresponding increase of \$280,200 from the Long Term Care System Fund in FY 2018 for a decrease in the federal match rate.

Statewide Adjustments

The budget includes an increase of \$126,600 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	37,000
Long Term Care System Fund	89,600

Background – Monies in this line item fund direct DD operating and administrative costs. This line item does not include departmentwide administration and indirect costs. The budget continues a footnote that 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.

DDD Premium Tax Payment

The budget includes \$27,628,800 in FY 2018 for the DDD Premium Tax Payment. This amount consists of:

General Fund	8,363,200
Long Term Care System Fund	19,265,600

These amounts fund the following adjustments:

New Line Item

The budget includes an increase of \$25,784,100 in FY 2018 to create a new line item for the DDD premium tax payment. This amount consists of:

General Fund	7,804,800
Long Term Care System Fund	17,979,300

Premium Tax Growth

The budget includes an increase of \$1,844,700 in FY 2018 for growth in the premium tax. This amount consists of:

General Fund	558,400
Long Term Care System Fund	1,286,300

Background – DES pays a 2% premium tax to the Department of Insurance on capitation payments received from AHCCCS. Funding for this line item was previously included in the DDD Operating Lump Sum.

Case Management - Medicaid

The budget includes \$59,316,300 and 1,148.3 FTE Positions in FY 2018 for Medicaid Case Management. These amounts consist of:

General Fund	17,920,800
Long Term Care System Fund	41,395,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$3,672,000 and 71.4 FTE Positions in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. These amounts consist of:

General Fund	795,900
Long Term Care System Fund	2,876,100

Statewide Adjustments

The budget includes an increase of \$296,600 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	86,700
Long Term Care System Fund	209,900

Background – This line item provides case management services for DDD clients enrolled in ALTCS.

Home and Community Based Services - Medicaid

The budget includes \$1,163,987,200 and 94.5 FTE Positions in FY 2018 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	351,778,200
Long Term Care System Fund	812,209,000

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$65,965,300 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	14,284,600
Long Term Care System Fund	51,680,700

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$70,646,500 in FY 2018 for developmental disabilities provider rate adjustments to address cost increases associated with Proposition 206 minimum wage and paid sick leave requirements. This amount consists of:

General Fund	21,384,700
Long Term Care System Fund	49,261,800

(Please see Other Issues for additional information.)

One-Time Proposition 206 Assistance

The budget includes an increase of \$33,036,000 in FY 2018 for one-time assistance to address developmental disability provider costs of Proposition 206. This amount consists of:

General Fund	10,000,000
Long Term Care System Fund	23,036,000

Remove One-Time Supplemental Funding

The budget includes a decrease of \$(25,460,000) in FY 2018 to remove one-time supplemental funding from FY 2017. This amount consists of:

General Fund	(7,720,800)
Long Term Care System Fund	(17,739,200)

(Please see Other Issues for additional information.)

Statewide Adjustments

The budget includes an increase of \$62,100 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	18,200
Long Term Care System Fund	43,900

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).

Of the \$1,163,987,200 in this line item, \$1,151,555,400 funds HCBS services to clients enrolled in the LTC program; the other \$12,431,800 funds program staff.

Institutional Services - Medicaid

The budget includes \$24,133,300 and 74 FTE Positions in FY 2018 for Medicaid Institutional Services. These amounts consist of:

General Fund	7,292,200
Long Term Care System Fund	16,841,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,500,100 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	324,800
Long Term Care System Fund	1,175,300

Statewide Adjustments

The budget includes an increase of \$22,300 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	6,500
Long Term Care System Fund	15,800

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-ID) (formerly referred to as ICF-MRs) or other nursing facilities, both privately and state-operated, excluding ATP-C. DES reports that 143 individuals received Medicaid institutional services in FY 2016.

Of the \$24,133,300 in this line item, \$18,567,800 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

Medical Services - Medicaid

The budget includes \$176,526,600 and 35.4 FTE Positions in FY 2018 for Medical Services. These amounts consist of:

General Fund	53,341,000
Long Term Care System Fund	123,185,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$10,981,000 in FY 2018 for formula adjustments. The formula adjustments

include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	2,380,000
Long Term Care System Fund	8,601,000

Statewide Adjustments

The budget includes an increase of \$31,100 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	9,100
Long Term Care System Fund	22,000

Background – Of the \$176,526,600 in this line item, \$172,048,600 funds Acute Care services to clients enrolled in the LTC program; the other \$4,478,000 funds the staff of the division’s Managed Care unit.

Arizona Training Program at Coolidge - Medicaid

The budget includes \$15,821,400 and 383.7 FTE Positions in FY 2018 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

General Fund	4,788,200
Long Term Care System Fund	11,033,200

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(91,400) from the General Fund and a corresponding increase of \$91,400 from the Long Term Care System Fund in FY 2018 for formula adjustments. The formula adjustment consists of the federal match rate change.

Statewide Adjustments

The budget includes an increase of \$86,300 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	25,200
Long Term Care System Fund	61,100

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 2016 the caseload at ATP-C was 87. At that caseload, the cost per DD client at ATP-C will be roughly \$183,000.

DES is planning to close ATP-C within the next 5 years. In response, the Legislature sought additional information on their plans. As permanent law, the FY 2017 Human Services BRB (Laws 2016, Chapter 123) requires DES to

update their closure plans to the JLBC for review by November 1 of each year.

DES’ plan for closure is partly in response to federal rules changes that no longer allow group homes to be co-located with an intermediate care facility. As a result, AHCCCS and DES made a preliminary assessment that the group homes at ATP-C would not be able to attain compliance with the rules, which could require the relocation of 23 clients to alternative settings. The federal government subsequently delayed the effective date of the rules changes to 2022. The rules changes do not require the closure of the ICF-ID at ATP-C. DES is seeking to close that facility as well.

Currently, DES plans to close the SOGHs at ATP-C by June 30, 2019, and the ICF-ID would close in June 2021.

Medicare Clawback Payments

The budget includes \$4,043,000 from the General Fund in FY 2018 for Medicare Clawback Payments. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$672,400 from the General Fund in FY 2018 for formula adjustments associated with Medicare Clawback Payments.

Background – The federal government pays for the prescription drug costs of DDD clients enrolled in Medicare. To partly offset those costs, the federal government requires each state to make “Clawback” payments to Medicare based on a certain percentage (75% in 2017) of the estimated drug costs.

Case Management - State-Only

The budget includes \$3,913,000 and 79.3 FTE Positions from the General Fund in FY 2018 for state-only case management. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$19,300 from the General Fund in FY 2018 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program. As of April 2017, this line provided services to 8,295 state-only clients, including 4,627 clients enrolled in the Medicaid Targeted Case Management (TCM) program. TCM provides case management services to DDD clients that are financially eligible for AHCCCS acute care services but do not meet the functional disability requirements to

qualify for ALTCS. DES receives additional capitation revenue from AHCCCS to operate the TCM program. These capitation payments generated additional federal Medicaid revenue of \$5.4 million for DDD state-only clients in FY 2016, resulting in Total Fund expenditures of \$9.3 million for state-only case management services in FY 2016. The appropriation in this line excludes the expenditure authority for the \$5.4 million in Medicaid revenue.

Home and Community Based Services - State-Only

The budget includes \$20,028,000 and 53.6 FTE Positions in FY 2018 for state-only Home and Community Based Services. These amounts consist of:

General Fund	19,908,000
Special Administration Fund	120,000

These amounts fund the following adjustments:

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$1,114,600 from the General Fund in FY 2018 for developmental disabilities provider rate adjustments to address cost increases associated with Proposition 206 minimum wage and paid sick leave requirements. *(Please see Other Issues for additional information.)*

Remove One-Time Supplemental Funding

The budget includes a decrease of \$(427,000) from the General Fund in FY 2018 to remove one-time supplemental funding from FY 2017.

Early Intervention Program Referrals Increase

The budget includes an increase of \$2,000,000 from the General Fund in FY 2018 for an increase in referrals to the Arizona Early Intervention Program (AzEIP). The department is projecting a total of 17,868 referrals to the program in FY 2018, an increase of 6.0% compared to FY 2017. Of the 17,868 referrals, DES projects that 5,481, or 30.7%, will be determined eligible for services.

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 2017, there were 8,295 clients in the state-only program.

The budget continues to include \$120,000 from the Special Administration Fund to fund HCBS services for persons whose service costs go above the Cost Effective Study (CES) rate as a result of provider rate increases.

Of the \$20,028,000 in this line item, \$12,010,900 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$6,319,000 funds the Arizona Early Intervention Program.

State-Funded Long Term Care Services

The budget includes \$28,561,500 and 2 FTE Positions in FY 2018 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	2,000,000
Long Term Care System Fund	26,561,500

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(600,000) from the Special Administration Fund in FY 2018 to remove one-time funding for room and board services for DD clients. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

One-Time Room and Board Funding

The budget includes an increase of \$2,000,000 from the General Fund in FY 2018 for one-time funding for state-only room and board expenses funded by the Division of Developmental Disabilities.

Statewide Adjustments

The budget includes an increase of \$1,900 from the Long Term Care System Fund (Non-Federal Matched) in FY 2018 for statewide adjustments.

Background – This line item primarily funds room and board expenses (e.g., rent and food) for DDD clients in residential settings. Room and board costs for home and community-based settings are ineligible for Federal Funds reimbursement from AHCCCS.

The FY 2018 Health BRB allows DES to use unexpended and unencumbered capitation payments for state-only programs administered by DDD through June 30, 2018. Before expending such monies, DES must submit an expenditure plan to JLBC for review. *(Please see Other Issues for further discussion of SFLTC services.)*

Of the \$28,561,500 in this line item, \$28,497,800 funds State-Funded Long Term Care (SFLTC) Services to clients enrolled in the DD program; the other \$63,700 funds program staff.

Employment and Rehabilitation Services

JOBS

The budget includes \$11,005,600 and 93 FTE Positions in FY 2018 for JOBS. These amounts consist of:

General Fund	300,000
Federal TANF Block Grant	9,594,700
Special Administration Fund	1,110,900

These amounts fund the following adjustments:

Decreased Participation

The budget includes a decrease of \$(2,000,000) from the Workforce Investment Act Grant in FY 2018 to account for a decline in participants. *(Please see the Workforce Investment Act Services section for more information.)*

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 5* highlights total estimated expenditures for the JOBS line item.

<u>Expenditures</u>	<u>Amount</u>
Case Management	\$ 7,971,400
Job Training	1,439,100
FLSA Supplement	126,900
Work-Related Transportation	1,214,300
Job Search Stipends	<u>253,900</u>
Total	\$11,005,600

Child Care Subsidy

The budget includes \$98,396,600 in FY 2018 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 2017.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 85% of the state median income that were below 165% of the FPL at the time of application, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment. DES also processes DCS child care payments but those dollars are in DCS.

Depending on the population group to which they belong, the length of time for which families are eligible to receive child care subsidies is restricted by statute. For the low-income working population, there is a 60-month cumulative time limit per child. The Transitional Child Care benefit is available for 24 months. The TANF Child Care benefit is available to families as long as they are receiving TANF Cash Benefits, which has a 24-month cumulative lifetime time limit after Laws 2017, Chapter 323 takes effect.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be \$336 per month in FY 2017 and the average subsidy for the DCS population is projected to be \$405 per month. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa rate, this \$2.00 co-payment would account for 7.5% of the total cost of care (with the state paying the other 92.5%). By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 37.6% of the child’s child care costs.

<u>Category</u>	<u>FY 16</u>	<u>FY 17 est</u>	<u>FY 18 est ^{1/}</u>
TANF	2,250	1,733	1,732
Low-Income Working	11,890	12,946	10,550
Transitional Child Care	<u>4,736</u>	<u>5,797</u>	<u>5,745</u>
Total Served	18,876	20,476	18,027

^{1/} FY 2018 numbers are DES estimates.

Caseloads – The estimated average number of children receiving child care services in FY 2018 is projected to be 18,027 (see *Table 6*) excluding DCS-related child care. As of April 2017, approximately 6,203 children are on the waiting list. It is unknown how many of those children remain eligible.

As session law, the FY 2018 Human Services BRB continues 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.

Rehabilitation Services

The budget includes \$7,249,100 in FY 2018 for Rehabilitation Services. This amount consists of:

General Fund	6,594,400
Spinal and Head Injuries Trust Fund	654,700

These amounts are unchanged from FY 2017.

DES categorizes Vocational Rehabilitation (VR) clients into 3 priority categories. Priority 1 clients have a severe physical or mental impairment that limits 3 or more functional capacities, Priority 2 clients have a severe physical or mental impairment that limits 1 or more functional capacities, and Priority 3 clients have an impairment that does not seriously limit functional capacities. Currently DES provides VR services to all Priority 1 and 2 clients.

Background – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 11,799 clients at an average Total Funds cost of \$15,647 per client. Administrative expenditures and local match draw down additional federal match.

Third-party partnerships with government and non-governmental agencies provide portions of the state match. These partnerships include the Transition School to Work program, Behavioral Health Services operated out of AHCCCS, and DES' Blind Enterprise Program.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2018 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 2017.

The Independent Living Rehabilitation Services program is expected to serve up to 665 clients in FY 2018 at an average Total Funds cost of \$3,250. In addition to these clients, the division is also expected to serve 100 clients at an average annual cost of \$4,870 per client using federal Social Services Block Grant monies.

The line item assists severely disabled individuals in living more independently. Funds are used to purchase

technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

Workforce Investment Act Services

The budget includes \$53,654,600 from the Workforce Investment Act (WIA) Grant in FY 2018 for the Workforce Investment Act Services line item. This amount funds the following adjustments:

Additional Service Funding

The budget includes an increase of \$2,000,000 from the WIA Grant in FY 2018 for additional services. The increased funding will be distributed as grants to local governments to provide job training to additional eligible individuals.

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.

There is no income eligibility for the program. For eligible adults, priority is given to veterans and their spouses, individuals who are below the poverty line, individuals receiving public assistance, and those who were recently laid off.

Eligible youths must be between the ages of 14 and 24 and have at least one barrier to employment such as homelessness, pregnancy, incarceration, or a disability.

The allocation of the WIA Grant for workforce related programs in FY 2018 is shown in *Table 7*.

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$53,654,600
Administration	2,375,600 ^{1/}
AG Legal Services	10,000
Total	\$56,040,200

^{1/} This funding is included in the operating budget.

Other Issues

This section includes information on the following topics:

- Long Term Budget Impacts
- FY 2017 Supplemental
- Proposition 206
- State Funded Long Term Care Services
- HCBS Provider Rates

- Appropriation Transfers
- Federal TANF Block Grant

Long Term Budget Impacts

As part of the budget's 3-year spending plan, DES' General Fund Developmental Disabilities costs are projected to increase by \$18.5 million in FY 2019 above FY 2018 and \$35.3 million in FY 2020 above FY 2019 based on:

- 4.5% caseload growth in FY 2019 and FY 2020, resulting in caseloads of 33,729 and 35,247 in June 2019 and June 2020, respectively.
- FMAPs of 70.04% and 70.20% in FY 2019 and FY 2020, respectively.
- 2.5% capitation growth for utilization and medical inflation in FY 2019 and FY 2020.
- An increase of \$3.9 million in FY 2019 and \$1.9 million in FY 2020 above FY 2019 for additional Proposition 206 minimum wage costs.
- A decrease of \$(12.0) million in FY 2019 to remove one-time funding for Proposition 206 and DDD Room and Board expenses.

FY 2017 Supplemental

The budget includes an FY 2017 supplemental increase of \$8,147,800 from the General Fund and \$17,739,200 from the Long Term Care System Fund for home and community-based service provider rate adjustments that were implemented by DES on January 1, 2017. The rate increases were in response to potential network adequacy concerns resulting from the impact of Proposition 206 minimum wage requirements on developmental disabilities providers and folded into the FY 2018 increase. (Please see Proposition 206 section below for additional information.)

Proposition 206

In November 2016, Arizona voters approved Proposition 206, or the Fair Wages and Healthy Families Act. The initiative raised Arizona's minimum wage from \$8.05 to \$10.00 on January 1, 2017, and will provide increases of between \$0.50-\$1.00 each year until the minimum wage reaches \$12.00 on January 1, 2020. Further annual increases will be tied to inflation. The initiative also requires most employers to provide paid sick leave to their employees beginning July 1, 2017.

Although state employees are exempt, Proposition 206 still applies to state contractors. As a result, costs for contracted DD providers could increase from the initiative due to required wage increases for direct care workers.

To address these concerns, in January 2017, DES implemented provider rate increases of up to 8.2% for certain home and community-based services providers. Among the most used services, group homes, respite care, attendant care, habilitation received the full 8.2% increase. Services received less than an 8.2% increase if the rates were already near 100% of the benchmark rates prior to Proposition 206 or if the services were provided by individuals (such as nurses or therapists) with wages significantly above the minimum wage. AHCCCS implemented similar adjustments of up to 7% in the fee-for-service rates for home and community based services for the ALTCS Elderly and Physically Disabled (EPD) population.

As shown in Table 8, the budget includes \$107,604,900 in Total Funds in FY 2018 for the DES budget to assist providers affected by Proposition 206. This amount consists of \$35,307,100 from the General Fund and \$72,297,800 from the Long Term Care System Fund. Except for \$807,800 from the General Fund for the Area Agencies on Aging funded within the Adult Services line item, all of the Proposition 206 funding is allocated to the Division of Developmental Disabilities. The budget designates \$35,036,000 in Total Funds Proposition 206 funding for DDD as one-time, including \$2,000,000 for DDD room and board expenses.

A footnote in the FY 2018 General Appropriation Act requires AHCCCS to complete a study on or before February 1, 2018 to determine what effect Proposition 206 has had on the adequacy of the provider network for the DD program as well as the EPD program, and make any recommendations as appropriate for further action by the Legislature.

Table 8

FY 2018 Proposition 206 Funding for DES

	General Fund	Long Term Care System Fund	Total Funds
Ongoing			
HCBS - Medicaid	\$ 21,384,700	\$ 49,261,800	\$ 70,646,500
HCBS - State-Only	1,114,600		1,114,600
Adult Services	807,800		807,800
Subtotal Ongoing	\$ 23,307,100	\$ 49,261,800	\$ 72,568,900
One-Time			
HCBS - Medicaid	\$ 10,000,000	\$ 23,036,000	\$ 33,036,000
Room and Board	2,000,000		2,000,000
Subtotal One-Time	\$ 12,000,000	\$ 23,036,000	\$ 35,036,000
GRAND TOTAL	\$ 35,307,100	\$ 72,297,800	\$ 107,604,900

State-Funded Long Term Care Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, 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.

DES has mitigated the SFLTC shortfall in past years with transfers from LTCSF "equity." Equity represents DDD capitation revenues received in excess of DDD program expenditures. The FY 2015 Health BRB (Laws 2014, Chapter 11), however, required DES to transfer all equity to the General Fund at the end of the following fiscal year. A November 2016 Auditor General Financial Report showed that DES withheld \$2 million from the equity transfer to the General Fund to address the FY 2016 SFLTC shortfall.

To ensure that the General Fund receives all DDD equity revenues in future years, the FY 2018 Health BRB (Laws 2017, Chapter 309) includes, as permanent law, a provision that prohibits DES from adjusting the equity transfer to pay for any state-only program claims beginning in FY 2019. The bill permits DES to continue to use equity monies for DDD state-only programs through June 30, 2018, but before making such expenditures, DES must submit a plan of any proposed use of equity monies to JLBC for review.

At its June 2017 meeting, the JLBC favorably reviewed DES' proposal to spend \$14.5 million of DDD equity monies for FY 2017 shortfalls in DDD state-only programs. This amount included \$4.3 million to address the SFLTC shortfall in FY 2017, and an additional \$2.0 million for the SFLTC shortfall in FY 2016, for a total of \$6.3 million. DES' proposal did not include any use of equity monies to address the FY 2018 shortfall.

HCBS Provider Rates

DES has different contracted rates with various types of HCBS providers. The divisions completed a rate rebase study in 2014 that compared adopted provider rates with market "benchmark" rates. *Table 9* shows how the adopted rates compare to the benchmark rates for the top 10 most used DD services. Current rates range from 61% to 100% of the benchmarks. These adopted rates are

the result of a 1% increase for all HCBS providers effective July 1, 2016, as well as increases of up to 8.2% for select providers implemented on January 1, 2017 to address costs associated with Proposition 206.

In a September 2016 report, DES' provider rate consultant concluded that DDD provider rates are adequate and appropriate based on measures of access to services, but are "somewhat inadequate" as measured by how the adopted rates compare to the benchmark rates. The consultant therefore "strongly recommend(s) that any monies that may be available for rate increases be prioritized for those services with adopted to benchmark ratios of less than 80%."

Table 9

FY 2017 Adopted Rate to Benchmark Rate Ratio 10 Biggest DDD Services

Service	Ratio	FY 2016 Expenditures (\$ in M)
Group Home	94.9%	\$225.4
Respite	79.3%	83.0
Habilitation	79.9%	83.0
Attendant Care	82.5%	72.4
Day Programs	100.0%	70.0
Adult Developmental Home	94.1%	41.7
Nursing	80.8%-91.4%	41.1
Intense Day Programs	96.9%	29.2
Group Home Room & Board	61.9%-75.9%	21.7
Group Supported Employment	81.9%-100.0%	21.6
Total		\$689.1

HCBS provider reimbursement is one component of the overall DDD capitation rate. The capitation payment also funds DDD administrative costs, case management, premium taxes, institutional services, and acute care services. Each year the capitation rate is updated to reflect actual use of services from prior years, projected trends in utilization in the next year, provider rate changes, and program changes (e.g. changes to the available benefits). As a result, the percentage change in the capitation rate does not typically reflect an equivalent percentage change in HCBS provider rates.

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 budget continues a footnote requiring DES to submit a report for review to the JLBC before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items. The purpose of

the footnote is to provide oversight if the department proposes to increase or decrease administrative resources. *(Please see the FY 2018 Baseline for additional information.)*

Federal TANF Block Grant

The budget appropriates \$222.4 million of the state's Federal TANF Block Grant allocation in FY 2017. *Table 10* shows expected yearly revenues, expenditures, and fund balances across 2 agencies. The table does not address the impact of either Chapter 323, which changes the TANF Cash Benefit lifetime limit to 24 months from 12 months, or Chapter 330, which extends benefits to child-only cases in unlicensed foster homes.

Table 10

TANF Block Grant Spending

	Actual FY 2016	Estimate FY 2017	Estimate FY 2018
Revenues			
Beginning Balance	\$ 3,709,300	\$ 3,366,100	-
TANF Base Revenues	200,141,300	200,141,300	200,141,300
TANF Contingency Fund Revenues	19,655,600	19,655,600	19,655,600
Total TANF Available	\$ 223,506,200	\$ 223,163,000	\$ 219,796,900
Expenditures			
Department of Child Safety			
DCS Operating	\$ 46,928,100	\$ 16,928,000	\$ 16,928,000
Line Items			
Caseworkers	-	30,000,000	30,000,000
Attorney General Legal Services	99,400	99,400	99,400
Inspections Bureau	549,500	549,700	549,700
Overtime	3,859,500	3,859,500	3,859,500
Adoption Services	20,645,700	20,445,700	20,445,700
Emergency and Residential Placement	16,423,000	16,423,000	16,423,000
Foster Care Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,743,000	1,943,000	1,943,000
In-Home Mitigation/In-Home Preventive Support Services	5,911,200	5,911,200	5,911,200
Out-of-Home Support Services	46,191,400	46,340,100	46,340,100
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 149,323,900	\$ 149,472,700	\$ 149,472,700
Department of Economic Security			
DES Operating	\$ 20,315,500	\$ 20,315,500	\$ 20,315,500
Line Items			
Administration			
Attorney General Legal Services	\$ 106,100	\$ 106,100	\$ 106,100
Aging and Adult Services			
Community and Emergency Services	\$ 3,724,000	\$ 3,724,000	\$ 3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,588,200	6,620,700	6,620,700
Total - Aging and Adult Services	\$ 11,961,700	\$ 11,994,200	\$ 11,994,200
Benefits and Medical Eligibility			
TANF Cash Benefits	\$ 28,299,100	\$ 27,736,400	\$ 27,736,400 ^{1/}
Coordinated Hunger Program	500,000	500,000	500,000
Total - Benefits and Medical Eligibility	\$ 28,799,100	\$ 28,236,400	\$ 28,236,400
Employment and Rehabilitation Services			
JOBS	\$ 6,916,000	\$ 9,594,700	\$ 9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
Total - Employment and Rehabilitation Services	\$ 9,633,800	\$ 12,312,500	\$ 12,312,500
TOTAL - DEPARTMENT OF ECONOMIC SECURITY ^{2/}	\$ 70,816,200	\$ 72,964,700	\$ 72,964,700
FY 2017 Administrative Adjustments ^{3/}		\$ 6,006,500	
TOTAL - STATEWIDE	\$ 220,140,100	\$ 228,443,900	\$ 222,437,400
Ending Balance ^{4/}	\$ 3,366,100	\$ (5,280,900)	\$ (2,640,500)

^{1/} Does not include funding for changes to the TANF lifetime limit from 12 months to 24 months as required by Laws 2017, Chapter 323.

^{2/} Totals do not reflect legislative changes unless enacted in the FY 2018 General Appropriation Act.

^{3/} As estimated by the agency.

^{4/} Actual Ending Balance will not be negative.

State Board of Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	4.0	6.0
Personal Services	552,000	314,400	314,400
Employee Related Expenditures	192,200	125,800	136,600
Professional and Outside Services	251,300	250,500	250,500
Travel - In State	400	10,000	10,000
Travel - Out of State	800	10,000	10,000
Other Operating Expenditures	276,800	358,300	407,100
Equipment	28,300	25,000	25,000
AGENCY TOTAL	1,301,800	1,094,000	1,153,600 ^{1/}
FUND SOURCES			
General Fund	1,139,100	1,094,000	1,153,600
<u>Other Appropriated Funds</u>			
Teacher Certification Fund	162,700	0	0
SUBTOTAL - Other Appropriated Funds	162,700	0	0
SUBTOTAL - Appropriated Funds	1,301,800	1,094,000	1,153,600
TOTAL - ALL SOURCES	1,301,800	1,094,000	1,153,600

AGENCY DESCRIPTION — The State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board is composed of 11 members: the Superintendent of Public Instruction, the president of a state university or college, 4 lay members, a president or chancellor of a community college district, a charter school administrator, a high school district superintendent, a teacher, and a county school superintendent. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Operating Budget

The budget includes \$1,153,600 and 6 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Attorney General ISA

The budget includes an increase of \$48,800 from the General Fund in FY 2018 to restore funding for the State Board of Education's (SBE) intergovernmental service agreement (ISA) with the Attorney General for legal services related to the prosecution of teacher certification enforcement hearings. Funding for this item had been included in the monies that were transferred to the Arizona Department of Education (ADE) beginning in FY 2017 by Laws 2016, Chapter 138 as part of the clarification of the 2 entities' duties and responsibilities. SBE retained responsibility for maintaining the ISA, however, so the budget returns this portion of the funding to SBE beginning in FY 2018. The budget reduces

the General Fund appropriation to ADE by a corresponding \$(48,800) in FY 2018. ADE paid the expense of the ISA in FY 2017.

Additional FTE Positions

The budget includes an increase of 2 FTE Positions for SBE to hire an administrative assistant and a receptionist. The budget includes no additional General Fund monies for these positions. SBE will fund these positions using monies in its operating budget that are no longer required to support litigation costs between SBE and ADE.

Statewide Adjustments

The budget includes an increase of \$10,800 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Department of Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	164.9	171.9	171.9 ^{1/}
Personal Services	4,826,800	5,463,800	5,463,800
Employee Related Expenditures	1,734,700	1,962,600	2,088,000
Professional and Outside Services	564,700	427,700	427,700
Travel - In State	17,300	32,800	32,800
Travel - Out of State	21,900	23,600	23,600
Other Operating Expenditures	1,718,900	4,938,600	5,270,300
Equipment	164,000	68,500	68,500
OPERATING SUBTOTAL	9,048,300	12,917,600	13,374,700 ^{2/-4/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,621,149,600	3,736,092,000	3,830,841,900 ^{5/-8/}
State Aid Supplement	50,000,000	50,000,000	50,000,000 ^{9/ 10/}
Additional Teacher Salary Increase	0	0	34,000,000 ^{11/-19/}
Results-Based Funding	0	0	37,600,000
Rural Assistance	0	0	2,600,000 ^{20/ 21/}
Special Education Fund	32,211,300	32,242,100	32,242,100
Other State Aid to Districts	229,800	983,900	983,900
Current-Year Funding Backfill	0	31,000,000	0
Former District-Sponsored Charter Schools	0	1,148,000	0
Property Tax Relief			
Additional State Aid - Homeowner's Rebate	353,649,100	391,456,100	386,215,500
Additional State Aid - 1% Cap	13,034,900	12,237,700	24,330,500
Non-Formula Programs			
Accountability and Achievement Testing	16,422,400	16,420,800	16,423,700 ^{22/}
Adult Education	4,485,300	4,498,200	4,504,200
Alternative Teacher Development Program	500,000	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
Broadband Expansion	0	0	3,000,000
Code Writers Initiative Pilot Program	0	500,000	0
College Credit by Examination Incentive Program	0	0	5,000,000
Early Literacy	0	0	8,000,000
English Learner Administration	6,507,900	6,495,000	6,519,000 ^{23/}
Geographic Literacy	0	100,000	100,000 ^{24/}
Jobs for Arizona Graduates	0	0	100,000
JTED Completion Grants	0	0	1,000,000 ^{25/-27/}
JTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 ^{28/}
K-3 Reading	39,917,300	0	0
School Safety Program	2,469,700	3,645,600	4,147,600
State Block Grant for Vocational Education	11,576,300	11,576,300	11,576,300
Teacher Certification	1,771,500	1,828,100	1,847,300
Teacher Professional Development Pilot	0	0	300,000
Tribal College Dual Enrollment Program Fund	0	250,000	250,000
AGENCY TOTAL	4,168,933,800	4,319,851,800	4,481,417,100 ^{29/-32/}

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
FUND SOURCES			
General Fund	3,939,909,800	4,086,457,000	4,226,958,400
<u>Other Appropriated Funds</u>			
Automation Projects Fund	0	0	3,000,000
Budget Stabilization Fund	0	0	2,600,000
Department of Education Empowerment Scholarship Account Fund	398,300	797,900	1,202,000
Department of Education Professional Development Revolving Fund	276,300	2,700,000	2,700,000
Permanent State School Fund	219,440,500	219,804,200	235,343,500
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	0	500,000	0
Teacher Certification Fund	1,908,900	2,342,700	2,363,200
Tribal College Dual Enrollment Program Fund	0	250,000	250,000
SUBTOTAL - Other Appropriated Funds	229,024,000	233,394,800	254,458,700
SUBTOTAL - Appropriated Funds	4,168,933,800	4,319,851,800	4,481,417,100
Other Non-Appropriated Funds	603,571,700	606,781,700	693,128,000
Federal Funds	1,124,034,400	1,159,279,200	1,159,279,200
TOTAL - ALL SOURCES	5,896,539,900	6,085,912,700	6,333,824,300

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. In FY 2017, the department oversaw 236 school districts, accommodation districts and Joint Technological Education Districts and approximately 430 charter schools in their provision of public education from preschool through grade 12.

- 1/ Includes 60.5 GF and 24.0 OF FTE Positions funded from Special Line Items in FY 2018.
- 2/ The operating lump sum appropriation includes \$683,900 and 8.5 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services. (General Appropriation Act footnote)
- 3/ The amount appropriated for the department's operating budget includes \$500,000 for technical assistance and state level administration of the K-3 Reading program established pursuant to A.R.S. § 15-211. (General Appropriation Act footnote)
- 4/ Before spending the monies appropriated by this section, the department shall submit an expenditure report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote pertaining to the \$400,000 appropriation for Empowerment Scholarship Account Administration)
- 5/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2016, Chapter 117. Laws 2017, Chapter 305 also appropriates \$930,727,700 in FY 2019 to reflect the deferral of FY 2018 payments.
- 6/ 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 \$235,343,500 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2018. (General Appropriation Act footnote)
- 7/ 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. (General Appropriation Act footnote)
- 8/ Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, income from the investment of permanent state school funds as prescribed by the Enabling Act and the Constitution of Arizona and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure may not be made except as specifically authorized above. (General Appropriation Act footnote)
- 9/ Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 annually for FY 2016 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 from the General Fund for school districts and charter schools conditional upon passage of Proposition 123 in May 2016. Note: Proposition 123 was approved.
- 10/ The Department of Education shall allocate the appropriated amount to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943, paragraph 2, subdivision (a) and increase the budget limits pursuant to A.R.S. § 15-947 accordingly. For the purposes of this subsection, the weighted student count for a school district that serves as the district of attendance for nonresident pupils shall be increased to include nonresident pupils who attend school in the school district. (Laws 2015, 1st Special Session, Chapter 1, Section 6 footnote)
- 11/ Each school district or charter school shall use its allocation from this line item only to increase the salary of each teacher who taught at an Arizona school district or charter school during the 2016-2017 school year and who teaches at the school district or charter school during the 2017-2018 school year by 1.06% in FY 2018. The 1.06% salary increase that a school district or charter school provides to each eligible teacher from this line item shall be in addition to any other salary increase that the school district or charter school would have provided to the teacher for the 2017-2018 school year apart from this line item. The 1.06% salary increase shall supplement and not supplant any salary increase that the school district or charter school would have provided to the teacher for the 2017-2018 school year apart from this line item. (General Appropriation Act footnote)
- 12/ The department of education shall use the appropriated amount to provide school districts and charter schools with funding for additional teacher salary increases for FY 2018. (General Appropriation Act footnote)

- 13/ On or before December 1, 2017, the department shall allocate to each school district and charter school in this state the amount of funding needed to increase by 1.06% the salary of each teacher who teaches at the school district or charter school during the 2017-2018 school year and who taught at an Arizona school district or charter school during the 2016-2017 school year, including the amount of funding needed to pay the employer share of related increases in employee-related expenses for the Arizona State Retirement System or other employee retirement systems and the Federal Insurance Contributions Act. The employer share of employee-related retirement system expenses for a teacher not participating in the Arizona State Retirement System may not exceed expenses for a teacher participating in the Arizona State Retirement System. The 1.06% salary increase for each eligible teacher shall be computed by the school district or charter school based on the teacher's teaching salary for the 2016-2017 school year. The department shall add the amount computed for each school district and charter school pursuant to this paragraph to the base support level that otherwise would be computed for the school district or charter school for FY 2018 pursuant to A.R.S. § 15-943 or 15-943.02. (General Appropriation Act footnote)
- 14/ The members of a school district governing board or a charter school governing body shall conduct a separate vote regarding the allocation of monies that it receives from this line item. It also shall notify teachers of the scheduled date and time of action of the board or body for this issue and shall transmit a notice of public hearing to the Department of Education for posting on the department's website at least 10 days before the hearing. If the school district or charter school maintains a website, the school district or charter school shall post on its website the notice of the public hearing. (General Appropriation Act footnote)
- 15/ The members of the governing board of a school district or the governing body of a charter school shall attest on the page of the school district's or charter school's FY 2018 budget that the members sign that the budget adopted by the school district or charter school for FY 2018 meets the requirements of this line item. This attestation shall also pertain to the following information provided by the school district or charter school regarding teachers who taught at an Arizona school district or charter school during the 2016-2017 school year and who teach at the school district or charter school during the 2017-2018 school year: the number of teachers, the total amount of teacher salaries for the 2016-2017 school year, the total amount of teacher salaries for the 2017-2018 school year apart from this line item, the total of the employer share of related increases in employee-related expenses for required contributions to employee retirement systems and the Federal Insurance Contributions Act and the total amount of funding needed to increase by 1.06% the salary of each teacher who teaches at the school district or charter school during the 2017-2018 school year and who taught at an Arizona school district or charter school during the 2016-2017 school year. (General Appropriation Act footnote)
- 16/ A school district or charter school shall submit to the Department of Education the school district's or charter school's adopted budget. The department shall distribute funding for additional teacher salary increases for FY 2018 based on the adopted budget. This calculation is subject to the independent annual audit of the school district or charter school pursuant to A.R.S. § 15-914. Any audit findings regarding the miscalculation of this line item shall be reported to the Department of Education and are subject to a budget correction pursuant to A.R.S. § 15-915. (General Appropriation Act footnote)
- 17/ Monies that a school district receives from this line item shall be included in the school district's general budget limit for the Maintenance and Operation Fund for FY 2018 pursuant to A.R.S. § 15-947. Monies that a joint technical education district receives from this line item shall be included in the joint technical education district's general budget limit for the Maintenance and Operation Fund for FY 2018 pursuant to A.R.S. § 15-947.01. (General Appropriation Act footnote)
- 18/ The Legislature and Governor intend for this appropriation to result in an increase in the compensation of Arizona's public schoolteachers for FY 2018 and intend to include funding for an additional 1.06% teacher salary increase in FY 2019. Appropriations for teacher salary increases in FY 2019 shall be distributed in the same manner as distributions for FY 2018. (General Appropriation Act footnote)
- 19/ For the purposes of this footnote, "teacher" means a person who was eligible to be included in the year-end full-time equivalent teacher count of a school district or charter school for the 2016-2017 school year in the Annual Financial Report of a school district or charter school for FY 2017 and who teaches at a school district or charter school during the 2017-2018 school year. Teacher does not include purchased services personnel or substitute teachers. (General Appropriation Act footnote)
- 20/ The appropriated amount shall be distributed on a pro rata basis based on average daily membership counts from the 2016-2017 school year to school districts and charter schools that are located in a county with a population of less than 500,000 persons according to the 2010 United States decennial census, except that a school district or charter school that primarily serves homeless or special needs pupils shall qualify for rural assistance funding regardless of the county in which it is located. (General Appropriation Act footnote)
- 21/ For the purposes of this section, "primarily serves homeless or special needs pupils" means that at least 80% of the pupils at the school district or charter school are homeless or qualify for a special education group B weight pursuant to A.R.S. § 15-943, paragraph 2, subdivision (b). (General Appropriation Act footnote)
- 22/ Before making any changes to the Achievement Testing program that will increase program costs, the Department of Education and the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 23/ The Department of Education shall use the appropriated amount to provide English language acquisition services for the purposes of A.R.S. § 15-756.07 and for the costs of providing English language proficiency assessments, scoring and ancillary materials as prescribed by the Department of Education to school districts and charter schools for the purposes of Title 15, Chapter 7, Article 3.1, Arizona Revised Statutes. The Department of Education may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of A.R.S. § 15-756.07. Notwithstanding A.R.S. § 41-192, the Superintendent of Public Instruction also may use a portion of the appropriated amount to contract with one or more private attorneys to provide legal services in connection with the case of Flores v. State of Arizona, No. CIV 92-596-TUC-RCC. (General Appropriation Act footnote)
- 24/ The Department of Education shall use the appropriated onetime amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in the state. The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)
- 25/ Monies appropriated for joint technical education district completion grants are intended to help fund program completion for students who complete at least 50% of a joint technical education program before graduating from high school and who successfully complete the joint technical education district program after graduating from high school. The Department of Education shall develop application procedures for the joint technical education district completion grant program. The procedures shall award grant funding only after an eligible student has successfully completed a joint technical education district program. (General Appropriation Act footnote)
- 26/ If the appropriated amount is insufficient to fund all grant requests from joint technical education districts, the Department of Education shall reduce grant amounts on a proportional basis in order to cap total statewide allocations at \$1,000,000. (General Appropriation Act footnote)
- 27/ The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)
- 28/ The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts. (General Appropriation Act footnote)

Summary

ADE's FY 2018 General Fund budget spending increases by \$157,582,600, or 3.9% above the original FY 2017 appropriation. The budget includes both current law formula adjustments and policy changes for FY 2018, in addition to 2 technical "base adjustments" for FY 2017:

Base Adjustments

- An increase of \$16,950,200 for higher-than-budgeted 1% Cap costs for FY 2017 ("base adjustment").
- A decrease of \$(12,092,800) for lower-than-budgeted Homeowner's Rebate costs for FY 2017 ("base adjustment").

Current Law Formula Adjustments

- An increase of \$87,526,600 for 1.4% Average Daily Membership (ADM) growth in FY 2018.
- An increase of \$17,642,900 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$79,519,800 for a 1.31% inflator.
- A decrease of \$(58,082,100) for local property tax growth due to new construction offset by Homeowner's Rebate impact of \$6,852,200.
- A decrease of \$(16,091,600) to offset higher available endowment earnings under Proposition 123.
- A decrease of \$(31,000,000) to eliminate one-time funding for a current-year funding backfill.
- A decrease of \$(18,100,000) to phase out remaining small school weight funding for multi-site charter schools.
- A decrease of \$(1,800,000) to complete the elimination of Joint Technical Education District (JTED) funding for students who have already graduated from high school (offset by \$1,000,000 policy issue listed below).
- A decrease of \$(1,148,000) to eliminate one-time funding for former district-sponsored charter schools.
- An increase of \$818,800 for Empowerment Scholarship Accounts (ESAs).
- An increase of \$5,000,000 for first-year funding of the College Credit by Examination Incentive program (A.R.S. § 15-249.06).
- An increase of \$135,400 for standard changes.

^{29/} After review by the Joint Legislative Budget Committee, in FY 2018, the department may use a portion of its FY 2018 state General Fund appropriations for Basic State Aid or Additional State Aid to fund a shortfall in funding for Basic State Aid or Additional State Aid, if any, that occurred in FY 2017. (General Appropriation Act footnote)

^{30/} The department shall provide an updated report on its budget status every 3 months for the first half of each fiscal year and every month thereafter to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for Basic State Aid and other major formula-based programs and is due 30 days after the end of the applicable reporting period. (General Appropriation Act footnote)

^{31/} Within 15 days after each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall post on its website the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)

^{32/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

The current law formula adjustments total to \$71,274,000.

Policy Changes

- An increase of \$34,000,000 for a 1.06% teacher salary increase.
- An increase of \$37,600,000 for results-based funding.
- An increase of \$8,000,000 for early literacy funding.
- An increase of \$1,000,000 for JTED completion grants.
- An increase of \$500,000 for school resource officers.
- An increase of \$300,000 for a one-time teacher professional development pilot program.
- An increase of \$100,000 for a Jobs for Arizona's Graduates program.
- A decrease of \$(48,800) to transfer funding for Attorney General legal services for teacher certification enforcement hearings to the State Board of Education.

The policy changes total to \$81,451,200.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$172,721,300 in FY 2019 above FY 2018 and \$168,265,400 in FY 2020 above FY 2019. (See *Other Issues* for more information.)

Operating Budget

The budget includes \$13,374,700 and 87.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$8,956,800
Department of Education Empowerment Scholarship Account Fund	1,202,000
Department of Education Professional Development Revolving Fund	2,700,000
Teacher Certification Fund	515,900

These amounts fund the following adjustments:

ESA Administration

The budget includes an increase of \$400,000 from the Department of Education Empowerment Scholarship Account Fund in FY 2018 for administration of the

Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This will provide the department with \$1,202,000 in ESA administration funding for FY 2018 after adjustments for standard changes.

The Department of Education Empowerment Scholarship Account Fund is funded with monies retained from Basic State Aid pursuant to A.R.S. § 15-2402C. That law allows ADE to retain for ESA program administration 5% of the sum of the base support level (BSL) and additional assistance prescribed in A.R.S. § 15-185 and A.R.S. § 15-943 for each ESA student.

Under Laws 2017, Chapter 139, however, the 5% retention does not apply to students whose family income does not exceed 250% of the federal poverty level (FPL), as their ESA funding now equals 100% of the sum of the BSL and additional assistance funding that they would have received at their prior public school. As a result, these students' ESA awards do not leave any "unused" BSL and additional assistance funding that could be retained for ESA administration. *(Please see the Empowerment Scholarship Accounts policy issue under Basic State Aid for more information on Chapter 139.)*

For FY 2018 the 5% retained amount is estimated at roughly \$2,000,000 (an estimated \$82,409,300 in total ESA funding for the year X 50% estimate for the proportion attributable to students funded at 90% of the sum of BSA and additional assistance X 5% = \$2,060,200).

A.R.S. § 15-2402C requires ADE to transfer 20% of the retained amount to the State Treasurer to fund the latter's costs for ESA fund processing. In addition, Laws 2017, Chapter 139 now requires ADE to also transfer 20% of the retained amount to the Department or Revenue (DOR) to fund ESA duties that DOR will be required to perform under Chapter 139. As a result, Chapter 139 reduces the proportion of retained monies that ADE may keep for its own use to 60% (previously 80%), with the remaining 40% collectively now going to the State Treasurer and DOR. *(See Empowerment Scholarship Accounts policy issue under Basic State Aid for more information on Chapter 139.)*

The actual expenditure of the retained monies, however, is subject to legislative appropriation. For FY 2018, the amounts appropriated for ESA administration to the department, State Treasurer and DOR are \$1,202,000 \$305,000 and \$50,000, respectively. *(See budget pages for the State Treasurer and DOR for more information on their respective ESA administration funding.) (See Empowerment Scholarship Accounts policy issue under*

Basic State Aid for more information regarding the Empowerment Scholarship Account program.)

Statewide Adjustments

The budget includes an increase of \$105,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	100,500
Department of Education Empowerment Scholarship Account Fund	4,100
Teacher Certification Fund	1,300

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$3,830,841,900 in FY 2018 for Basic State Aid. This amount consists of:

General Fund	3,595,498,400
Permanent State School Fund	235,343,500

The \$3,830,841,900 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 2018 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 2018, as they also are non-appropriated. In addition, it excludes separately-appropriated monies for the State Aid Supplement established by Proposition 123, for an additional teacher salary increase for FY 2018, for Results-Based Funding, for Rural Assistance, and for JTED Completion Grants, as they all are appropriated through separate line items apart from Basic State Aid.

(See Other Issues for background information regarding the Basic State Aid formula.)

The appropriated amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(12,223,800) from the General Fund in FY 2018 to remove one-time supplemental funding. The \$12,223,800 amount is one of 3 components of the department's FY 2017 supplemental. *(See FY 2017 Supplemental under Other Issues for more information.)*

Table 1

FY 2018 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2017 Appropriation (with supplemental)	\$3,516,287,800
Remove FY 2017 Supplemental (one-time)	(12,223,800)
Enrollment Growth @ 1.4%	87,526,600
Higher Average Cost Per Pupil	17,642,900
1.31% Inflator	79,519,800
Property Taxes from New Construction	(58,082,100)
Endowment Earnings	(16,091,600)
Multisite Charter Small School Weights	(18,100,000)
JTED Enrollment – No Graduates	(1,800,000)
Empowerment Scholarship Accounts	<u>818,800</u>
FY 2018 Budget ^{1/}	\$3,595,498,400
Permanent State School Fund	
FY 2017 Original	\$ 219,804,200
FY 2017 Base Adjustment	<u>(552,300)</u>
FY 2017 Revised	\$ 219,251,900
Estimated FY 2018 Growth ^{2/}	<u>16,091,600</u>
FY 2018 Budget	\$ 235,343,500
Prop 301 Sales Tax (no change) ^{3/}	\$ 86,280,500
Local Property Taxes ^{3/}	
FY 2017 Base - estimated	\$2,441,750,200
Property Taxes from New Construction	58,082,100
Non-State Aid Formula Changes	<u>14,775,100</u>
FY 2017 Estimated ^{4/}	\$2,514,607,400
Grand Total (all sources) ^{1/ 5/ 6/}	\$6,431,729,800

- ^{1/} Does not reflect reductions of \$(31,000,000) for Current-Year Funding Backfill and \$(1,148,000) for Former District-Sponsored Charter Schools, which are reflected in separate line items apart from Basic State Aid.
- ^{2/} Under Proposition 123.
- ^{3/} Non-appropriated, so excluded from appropriated totals.
- ^{4/} An estimated \$410,546,000 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
- ^{5/} Statutory formula cost would be approximately \$401,846,100 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are assumed to continue in the budget on a session law basis, including the impact on non-state aid districts.
- ^{6/} Does not include \$50,000,000 for State Aid Supplement, \$34,000,000 for Additional Teacher Salary Increase, \$37,600,000 for Results-Based Funding, \$2,600,000 for Rural Assistance and \$1,000,000 for JTED Completion Grants, as they all are appropriated to separate line items apart from Basic State Aid.

Enrollment Growth

The budget includes an increase of \$87,526,600 from the General Fund in FY 2018 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.4% in FY 2018 (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
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	912,920	152,158	1,065,078	14,403	1.4%
2015	920,225	160,946	1,081,171	16,093	1.5%
2016	922,809	170,210	1,093,019	11,848	1.1%
2017 est	926,556	180,091	1,106,647	13,628	1.25%
2018 est	931,783	190,075	1,121,858	15,211	1.4%
2019 est	937,972	199,959	1,137,931	16,073	1.4%
2020 est	944,161	209,993	1,154,154	16,223	1.4%

^{1/} Actuals for FY 2011 through FY 2016 are from ADE payment data. Numbers 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. Numbers for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).

^{2/} Includes district-sponsored charter schools.

^{3/} Excludes district-sponsored charter schools.

Higher Average Cost Per Pupil

The budget includes an increase of \$17,642,900 from the General Fund in FY 2018 for growth in the average Basic State Aid cost per pupil for FY 2018. The average cost per pupil increases annually due to ongoing growth in the proportion of K-12 pupils who are enrolled in charter schools or special education programs. Charter school students typically receive more formula funding per pupil than non-charter school students, although they do not receive local bond and override funding. Special education students receive "add on" funding that increases their average per pupil costs.

The \$17,642,900 estimate includes \$9,900,000 for charter school pupils and \$7,742,900 for special education students in FY 2018. The charter estimate assumes that board-sponsored charter schools will grow by approximately 9,900 ADM in FY 2018 and receive approximately \$1,000 more per pupil (9,900 X \$1,000 = \$9,900,000). The special education estimate assumes that the statewide special education weighted student count will increase by approximately 2,090 ADM in FY 2018 with an average assumed per pupil base level "add on" of \$3,700 (2,090 X \$3,700 = \$7,742,900). The assumed \$3,700 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. (See Table 3 for a summary of Special Education ADM since FY 2011.)

Table 3

Special Education ADM (weighted) ^{1/}

Fiscal Year	Districts	Charters	Total	Change	% Change
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	105,690	9,135	114,825	12,103	11.8%
2016	105,187	9,731	114,918	93	0.1%
2017 est	107,587	10,331	117,918	3,000	2.6%
2018 est	109,987	10,931	120,918	3,000	2.5%
2019 est	112,387	11,531	123,918	3,000	2.5%
2020 est	114,787	12,131	126,918	3,000	2.4%

^{1/} Actuals for FY 2011 through FY 2016 are from ADE payment data. Excludes "Group B" category that only receives funding weight of 0.003 (309 additional "weighted" students for FY 2016) and students enrolled at ASDB.

1.31% Inflation Adjustment

The budget includes an increase of \$79,519,800 from the General Fund in FY 2018 for a 1.31% 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 1.31% inflation adjustment increases the base level to \$3,683.27 for FY 2018 versus \$3,635.64 for FY 2017.

A.R.S. § 15-901.01 (established by Proposition 301) requires the Legislature to increase the "base level or other components of the Revenue Control Limit" (RCL) by 2% or by the change in the GDP price deflator for the most recent prior calendar year, whichever is less. The FY 2018 adjustment is 1.31%, which equals the GDP price deflator for calendar year 2016. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of \$2,687.32. (See the FY 2016 Appropriations Report for background information regarding the related *Cave Creek, et. al. v Ducey* lawsuit.)

Property Taxes from New Construction

The budget includes a decrease of \$(58,082,100) from the General Fund in FY 2018 due to a projected 2.22% increase in statewide Net Assessed Value (NAV) from new construction in FY 2018. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$58,082,100 in FY 2018. It also will decrease state costs by \$(58,082,100), 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 2.76% in FY 2018, resulting in a net 4.98% NAV increase for new construction and existing property combined for FY 2018.

The projected 2.76% NAV increase for existing property will not affect net QTR or SETR collections in FY 2018 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 \$4.05 (from \$4.16 currently) and the SETR will decrease to \$0.4875 (from \$0.5010 currently) in FY 2018 in order to offset the estimated 2.76% NAV increase for existing property (see Table 4).

Table 4

TNT Tax Rates

Tax Rate	FY 2017	FY 2018
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.0793	\$2.0234
• Unified districts and elementary districts not located within a high school district	\$4.1586	\$4.0468
• State Equalization Tax Rate (SETR)	\$0.5010	\$0.4875

On a related note, Proposition 117 from the November 2012 General Election, capped annual growth in property values at 5% starting in FY 2016. (See the FY 2016 Appropriations Report for more information.)

Endowment Earnings Base Adjustment

The budget includes a decrease of \$(552,300) from the Permanent State School Fund in FY 2018 for an endowment earnings base adjustment. The FY 2017 budget assumed that Proposition 123 would increase the amount of K-12 endowment earnings available for Basic State Aid for FY 2017 by \$172,444,700, but the actual increase based on updated data is \$171,892,400 (\$52,300 less). The base amount of endowment earnings from FY 2017 therefore will be \$(552,300) less than amount originally budgeted for FY 2017.

Endowment Earnings Growth

The budget includes a decrease of \$(16,091,600) from the General Fund and increase of \$16,091,600 from the Permanent State School Fund in FY 2018 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 \$235,343,500 for FY 2018, which would be \$16,091,600 more than the \$219,251,900 revised total assumed for FY 2017 (see Table 5).

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 \$47,359,500 will be used for Basic State Aid for FY 2018 and \$24,903,500 will be used for SFB debt service.

Table 5
Estimated K-12 Endowment Earnings for Basic State Aid ^{1/}

<u>Source</u>	<u>FY 2017 revised</u>	<u>FY 2018</u>	<u>Change</u>
Original 2.5% ^{2/}	\$47,359,500	\$47,359,500	\$0
New 4.4% ^{2/}	<u>171,892,400</u>	<u>187,984,000</u>	<u>16,091,600</u>
Total	\$219,251,900	\$235,343,500	\$16,091,600

- ^{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 approved Proposition 123 in May 2016, which did occur.

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 the FY 2017 Appropriations Report for more information on the October 2015 Special Session and Proposition 123.) (See Other Issues for more information on Endowment Earnings.)

The estimated \$235,343,500 in K-12 endowment earnings for FY 2018 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 2018 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 2018 at \$47,359,500.

Multisite Charter Small School Weight Reduction

The budget includes a decrease of \$(18,100,000) from the General Fund in FY 2018 to complete a phase out of small school weight funding for multisite charter schools in FY 2018. Multisite charters schools generally are charters schools with common organizational or governance structures. (See FY 2018 Baseline for more information.)

JTED Funding for High School Graduates

The budget includes a decrease of \$(1,800,000) from the General Fund in FY 2018 for Basic State Aid funding for JTED students who have already graduated from high school.

The FY 2017 K-12 Education BRB prohibits JTEDs from including high school graduates in their ADM counts, with certain short-term exceptions. For FY 2017 it allowed any high school graduate under age 21 who was enrolled in a JTED program on February 1, 2016 to remain in their

JTED’s ADM counts in FY 2017 until they finished the program or through the end of FY 2017, whichever occurred first.

The prohibition on high school graduates reduced Basic State Aid costs by an estimated \$(1,000,000) in FY 2017 and will reduce them by an additional estimated \$(1,800,000) in FY 2018 for a total assumed ongoing savings of \$(2,800,000) starting in FY 2018. The estimated savings is greater starting in FY 2018 because no exceptions to the new prohibition are allowed after FY 2017.

The FY 2018 General Appropriation Act, however, appropriates \$1,000,000 for a new JTED Completion Grants program that will fund up to \$1,000,000 of JTED program completion costs for high school graduates statewide starting in FY 2018. Monies for this new program are appropriated through a new separate line item apart from Basic State Aid. Only students who finished at least 50% of their JTED program prior to graduating from high school are eligible for funding from the grant program. (See JTED Completion Grants line item narrative below for more information.)

On a related note, the FY 2018 K-12 Education BRB continues to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2018 by funding their state aid at 95.5% of the full funding amount apart from unrelated District Additional Assistance (DAA) suspensions. This suspended an estimated \$1,888,800 of JTED formula funding for the East Valley Institute of Technology (EVIT), West-MEC and the Pima County JTED for FY 2017. The budget is continuing this suspension for FY 2018.

Rollover

The budget includes no change from the General Fund in FY 2018 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2018) state aid payments until the following fiscal year (now FY 2019).

The FY 2018 rollover affects only school districts with more than 600 students, as has been the policy since FY 2013. The budget continues to exempt small districts from the K-12 rollover in FY 2018, which would continue it at the \$930,727,700 level.

Laws 2016, Chapter 117 advance appropriated \$930,727,700 from the General Fund in FY 2018 in order to fund the \$930,727,700 deferred obligation from FY 2017. Those monies, therefore, do not appear in the FY 2018 General Appropriation Act. The Act, however, advance appropriates \$930,727,700 from the General

Fund in FY 2019 in order to fund the deferred FY 2018 obligation.

Additional Assistance Suspensions

The budget includes no change from the General Fund in FY 2018 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) statutory funding formulas. This continues to suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2018.

School districts will receive approximately \$73,000,000 of DAA funding in FY 2018, including \$5,000,000 self-funded by non-state aid districts under current estimates. Without the continuing suspension they instead would receive approximately \$455,000,000 in DAA funding, including approximately \$32,000,000 self-funded by non-state aid districts. DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts (if fully funded) of \$450.76 to \$601.24 per pupil depending on the pupil's grade level and the size of their school district.

Charter schools will receive approximately \$324,000,000 of CAA funding in FY 2018. Without the continuing suspension they instead would receive approximately \$343,000,000. CAA is authorized by A.R.S. § 15-185B4, which establishes CAA funding amounts (if fully funded) of \$1,775.05 per pupil for Grades K-8 and \$2,068.79 per pupil for Grades 9-12 for FY 2018 pursuant to Section 1 of the K-12 Education BRB.

As in prior years, the budget continues 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 qualified for state aid. Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes because of their strong local property tax base.

The FY 2018 K-12 Education BRB also continues to cap total statewide DAA reductions for school districts with fewer than 1,100 students at \$5,000,000 for FY 2018.

Empowerment Scholarship Accounts

The budget includes an increase of \$818,800 from the General Fund in FY 2018 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This includes an estimated \$377,800 for trend line ESA caseload growth and \$441,000 for increased ESA eligibility under Laws 2016, Chapter 112.

The \$377,800 estimate for trend line ESA caseload growth assumes an increase of 1,325 ESAs for FY 2018 apart from Laws 2016, Chapter 112. It also assumes that 95% of trend line ESA growth will be for students who otherwise

would attend public schools and 5% to all other pupils (primarily private and home school students), since the ESA eligibility law requires most ESA recipients to be prior year public school pupils.

In addition, it assumes that 58% of new ESAs under trend line growth would go to students with disabilities based on preliminary FY 2017 data. It also assumes different per pupil costs or savings for different types of ESA students based on formula modeling. For example, it assumes an average per pupil savings of \$(2,700) for special needs students from charter schools, but an average per pupil cost of \$5,700 for non-special needs students from private or home schools.

Laws 2016, Chapter 112 allows students with disabilities to continue to receive an ESA until age 22. The \$441,000 estimate assumes that 18 students between the ages of 19 and 22 will continue to receive ESA funding in FY 2018 under Chapter 112. This assumes an average per pupil cost of \$24,500 for these students, which is the estimated average ESA cost for pupils with disabilities.

Laws 2017, Chapter 139

Laws 2017, Chapter 139 expands ESA eligibility to all public school pupils by FY 2021, phasing in new eligibility over 4 years. Other major program changes under the bill are as follows:

- Bases ESA funding for new ESA kindergartners and prior districts students on District Additional Assistance (DAA) rather than Charter Additional Assistance (CAA) [existing ESA students are not affected].
- Funds 100% rather than 90% of Base Support Level (BSL) and additional assistance for ESA students if their family's income does not exceed 250% of the federal poverty level (FPL) and their household agrees to allow the Arizona Department of Revenue (DOR) to verify their family's income using information already available at DOR.
- Extends the cap on new ESA accounts that may be opened per year at 0.5% of the public school population through 2022 versus 2019 under prior law.
- Permanently cap the total number of ESA accounts at the FY 2022 level starting in 2023.

Chapter 139 also allows non-disabled students to remain eligible for an ESA until they reach 22 years of age or until they graduate from high school or obtain a general equivalency diploma, whichever occurs first.

The JLBC Staff fiscal analysis of Chapter 139 (SB 1431) estimated that it would reduce General Fund costs by \$(1,600,000) in FY 2018, \$(2,900,000) in FY 2019, \$(3,500,000) in FY 2020 and \$(3,400,000) in FY 2021, but noted that these estimates were highly speculative and that actual costs could vary substantially depending on the actual participation rates of newly eligible students. For example, ESA participation could depend heavily on families' awareness of and relative preference for the ESA program versus the School Tuition Organization ("STO") scholarships currently available (students may not participate in both programs). The FY 2018 budget did not assume any change in state costs for Basic State Aid (which funds the ESA program) under Chapter 139.

Overall Estimated ESA Costs for FY 2018

The overall cost of ESAs is projected to increase by \$36,401,800 in FY 2018, growing from an estimated \$46,007,500 in FY 2017 to an estimated \$82,409,300 in FY 2018 (see Table 6). With the exception of the \$818,800 increase for pre-Chapter 139 caseload growth described above, this higher estimated cost is expected to be offset by reductions in regular Basic State Aid costs for ESA students who otherwise would be attending public schools.

<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	2,175	\$28,590,800
FY 2017 (est)	3,500	\$46,007,500
FY 2018 (est)	7,850	\$82,409,300

^{1/} Figures shown for FY 2012 through FY 2017 are from ADE as of November 2016. FY 2018 estimates are from the JLBC Staff, including the estimated impact of Laws 2017, Chapter 139 (SB 1431). "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 depends in part on where individual ESA recipients would have attended school apart from the program, which is unknown.

The projected \$82,409,300 cost for ESAs for FY 2018 represents the estimated total amount of ESA allocations for the year rather than the net General Fund impact of the program after related Basic State Aid savings are deducted for students leaving public schools due to ESAs. 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.

Background – Eligible students can use ESA monies 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 previous ESA participant, the child of a resident member of the armed forces who is on active duty or was killed in the line of duty, or an incoming kindergartner or disabled preschooler:

- 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 in the prior year attended a school with a letter grade of D or F pursuant to A.R.S. § 15-241, which evaluates schools primarily based on their students' AzMERIT test scores.
- An incoming Kindergartner who resides within the boundaries of a school with a letter rating of D or F.
- The child of a resident member of the armed forces who is on active duty or was killed in the line of duty.
- A previous ESA participant.
- A child who received or was eligible to receive a Displaced or Disabled School Tuition Organization (STO) scholarship in the prior year and who attended a public school full-time for at least 90 days or one full semester in the prior year.
- A child who resides on an Arizona Indian reservation.
- A child of a parent who is legally blind, deaf or hard of hearing (new for FY 2017 pursuant to Laws 2016, Chapter 353).

Laws 2017, Chapter 139 gradually expands ESA eligibility to any public school student by FY 2021. The phase-in schedule is as follows:

- For FY 2018, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1, 6 and 9.
- For FY 2019, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1, 2, 6, 7, 9 and 10.
- For FY 2020, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1 - 3, and 6 - 11.
- For FY 2021, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1 - 12.

(Please see the FY 2015 Appropriations Report for historical information on changes in program eligibility.)

A.R.S. § 15-2402C authorizes the department to retain for ESA administration up to 5% of the funding designated for each student's ESA account. *(Please see the ESA Administration policy issue in the agency's Operating Budget narrative for more information.)*

Any of the department's retained monies for ESA administration that are not appropriated or spent are carried forward in the Department of Education Empowerment Scholarship Account Fund to the next fiscal year. At the end of FY 2016 the fund had a carry-forward balance of \$1,672,500.

State Aid Supplement

The budget includes \$50,000,000 from the General Fund in FY 2018 for State Aid Supplement funding. This amount is unchanged from FY 2017.

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. *(See the FY 2017 Appropriations Report for more information regarding Proposition 123.)*

Chapter 1 included a footnote instructing the department to allocate the State Aid Supplement monies for FY 2016 to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943(2a) and to increase budget limits accordingly. The footnote also stipulates that a school district's weighted student count is to include non-resident students who attend school in the district. It further stipulates that a school district may budget its State Aid Supplement funding in either its Maintenance and Operation (M&O) or Unrestricted Capital Outlay Fund. These footnote provisions also were enacted into law in advance for FY 2017 through FY 2025 by Laws 2015, 1st Special Session, Chapter 1. As a result, these footnotes do not appear in the FY 2018 General Appropriation Act.

In addition, the State Aid Supplement amounts for FY 2016 through FY 2025 will not appear in the General Appropriation Acts for those years, since they already were advance appropriated by Chapter 1.

Additional Teacher Salary Increase

The budget includes \$34,000,000 from the General Fund in FY 2018 for an additional teacher salary increase. This amount funds the following adjustments:

Additional Teacher Salary Increase

The budget includes an increase of \$34,000,000 from the General Fund in FY 2018 for an additional teacher salary increase. The General Appropriation Act (Laws 2017, Chapter 305) requires a school district or charter school to use its allocation of monies from this line item to give its teachers an additional 1.06% salary increase in FY 2018. It further stipulates that teacher salary increases funded by this line item shall supplement and not supplant any salary increases that a school district or charter school would have given its teachers for FY 2018 apart from this line item.

Chapter 305 establishes the following additional requirements for this line item:

- Limits eligibility for the salary increase monies only to persons who taught at an Arizona public school in FY 2017 and who teach at an Arizona public school in FY 2018.
- Requires the department to allocate to each school district and charter school on or before December 1, 2017 the amount of funding needed to increase by 1.06% the salary of each eligible teacher, including the amount of funding needed to pay the employer share of related increases in employee-related expenses for the Arizona State Retirement System (ASRS) or other employee retirement systems.
- Requires the 1.06% salary increase for each eligible teacher to be computed by their school district or charter school based on their teaching salary for the 2016-2017 school year.
- Makes the above calculations subject to the independent audit of the school district or charter school pursuant to A.R.S. § 15-914.
- Requires any audit findings regarding the miscalculation of this line item to be reported to the department and to be subject to a budget correction pursuant to A.R.S. § 15-915.
- Requires the department to add the amount computed for each school district or charter school to its Base Support Level (BSL), which will pull it into the Basic State Aid formula. As a result, non-state aid districts will self-fund the 1.06% salary increase for their teachers, since they self-fund all of their K-12 formula costs with local property taxes.
- Requires the governing board of a school district or charter school to conduct a separate vote regarding the allocation of monies that it receives from this line

item, notify teachers of the scheduled date and time of action of the vote, transmit a notice of public hearing to the department for posting on its website, and post notice of the public hearing on its website if it maintains one.

- Requires members of the governing board to attest on the page of its FY 2018 budget that members sign that the adopted budget meets the requirements of this line item. The attestation shall also apply to data used for related salary increase calculations.
- Requires a school district, charter school or joint technical education district to include the monies that it receives from this line item in its General Budget Limit for the Maintenance and Operation Fund for FY 2018 pursuant to A.R.S. § 15-947 or A.R.S. § 15-947.01, as applicable. As a result, the monies cannot be used for capital expenditures.
- Indicates that it is the intent of the Legislature and Governor that the appropriation results in an increase in the compensation of Arizona's public school teachers for FY 2018, that they intend to include funding for an additional 1.06% increase in FY 2019 (for a total of 2.12% over 2 years), and that appropriations for teacher salary increases in FY 2019 shall be distributed in same manner as for FY 2018.
- Defines "teacher" as a person who was eligible to be included in the year-end FTE teacher count of a school district for the 2016-2017 school year in the Annual Financial Report of a school district or charter school for FY 2017 and who teaches at a school district or charter school during the 2017-2018 school year. Excludes purchased services personnel or substitute teachers.

Results-Based Funding

The budget includes \$37,600,000 from the General Fund in FY 2018 for Results-Based Funding. This amount funds the following adjustments:

New Program

The budget includes an increase of \$37,600,000 from the General Fund in FY 2018 for a new Results-Based Funding program. The program will provide additional funding to individual schools under a formula prescribed in A.R.S. § 15-249.08, as established by Section 3 of the K-12 Education BRB (Laws 2017, Chapter 304).

A.R.S. § 15-249.08 establishes a new Results-Based Funding Fund for the program. The fund consists of legislative appropriations and is to be administered by the department. Monies in the fund are continuously appropriated.

For FY 2018, Chapter 304 bases eligibility for Results-Based Funding on AzMERIT test scores, but for FY 2019 and subsequent years it instead bases it on whether a school has a letter grade designation of "A" pursuant to A.R.S. § 15-241, as described below.

Formula for FY 2018

A.R.S. § 15-249.08 states that beginning in FY 2018 a school operated by a school district or charter school shall receive \$225 per student if fewer than 60% of its pupils were eligible for free or reduced price lunches (FRPL) under the National School Lunch and Child Nutrition Acts, or an equivalent measure, at the time of spring 2016 AzMERIT testing. Its students' average scores on the mathematics and language arts portions of the AzMERIT tests also must be in the top 10% of all school statewide.

A school shall receive \$400 per student if 60% or more of its pupils were FRPL eligible. Its students' average test scores must be in the top 10% of all schools statewide that likewise had 60% or more of their pupils eligible for free or reduced price lunches.

Each alternative high school that in 2014 was assigned the equivalent of a letter grade designation of "A" pursuant to A.R.S. § 15-241 shall receive \$400 per student.

Formula for FY 2019

Beginning in FY 2019, a school shall receive \$225 per student if it has a letter grade designation of "A" pursuant to A.R.S. § 15-241 from the prior fiscal year and if fewer than 60% of its pupils are FRPL eligible. If 60% or more of students are FRPL eligible, the school shall receive \$400 per student.

Other Requirements

A.R.S. § 15-249.08 establishes the following additional requirements for the program:

- Monies received by a school district or charter holder shall be separately accounted for in its Annual Financial Report.
- Monies shall be allocated directly to enhance, expand or replicate the school site that generated the funding and shall not supplant existing monies.
- The majority of the monies received by a school district or charter holder shall be used for teacher salaries, to hire teachers and to provide for teacher professional development.
- "Replication" means 1) adding seats and serving more students at the awarded school site, 2) using resources at a different location to improve that school or

sustain or accelerate academic growth, 3) mentoring other schools and school leaders to replicate the model or to provide other types of school improvement supports, and 4) physically expanding at another location.

- Schools at different locations that receive funding to improve or to sustain or accelerate growth must show steady improvement after 3 years to remain eligible for funding.

Rural Assistance

The budget includes \$2,600,000 in one-time funding from the Budget Stabilization Fund in FY 2018 for Rural Assistance. This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$2,600,000 from the Budget Stabilization Fund in FY 2018 for one-time funding for Rural Assistance. This funding is appropriated by Section 123 of the General Appropriations Act from the monies earned from the investment of monies in the Budget Stabilization Fund established by A.R.S. § 35-144.

Section 123 requires the appropriated amount to be distributed on a pro rata basis based on average daily membership counts from the 2016-2017 school year to school districts and charter schools that are located in a county with less than 500,000 persons according to the 2010 United States decennial census, except that a school district or charter school that primarily serves homeless or special needs pupils shall qualify regardless of the county in which it is located.

Section 123 defines "primarily serves homeless or special needs pupils" as being a school district or charter school with at least 80% of its students being homeless or qualifying for a special education "Group B" weight pursuant to A.R.S. § 15-943, paragraph 2, subdivision (b).

Special Education Fund

The budget includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2018 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2017.

The Special Education Fund provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) programs for the developmentally disabled operated by DES (A.R.S. § 15-1202). It also funds costs of residential education for students who require a private residential special education placement, or who are placed in a residential education facility by a state placing agency.

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2018 for Other State Aid to Districts. This amount is unchanged from FY 2017.

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.

Current-Year Funding Backfill

The budget includes no funding from the General Fund in FY 2018 for Current-Year Funding Backfill. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(31,000,000) from the General Fund in FY 2018 to eliminate a one-time backfilling of funding reductions that school districts with declining enrollments otherwise would experience in FY 2017 due to the implementation of current year Base Support Level (BSL) funding.

(See Eliminate Hold Harmless policy issue under Basic State Aid in the FY 2017 Appropriations Report for more information.)

Former District-Sponsored Charter Schools

The budget includes no funding from the General Fund in FY 2018 for Former District-Sponsored Charter Schools. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,148,000) from the General Fund in FY 2018 for Former District-Sponsored Charter Schools in order to eliminate one-time backfill funding. The FY 2017 budget included that funding in order to offset funding reductions that otherwise would occur in FY 2017 due to the elimination of district-sponsored charter schools. The FY 2017 K-12 Education BRB repealed statutory authority for district-sponsored charter schools after FY 2016.

(See Eliminate District Charters policy issue under Basic State Aid in the FY 2017 Appropriations Report for more information.)

Property Tax Relief

Additional State Aid - Homeowner's Rebate

The budget includes \$386,215,500 from the General Fund in FY 2018 for the Additional State Aid (ASA) - Homeowner's Rebate line item. This amount funds the following adjustments:

Base Adjustment

The budget includes a decrease of \$(12,092,800) from the General Fund in FY 2018 in order to reflect lower-than-budgeted costs for the Homeowner's Rebate for FY 2017. The FY 2017 budget assumed that the Homeowner's Rebate would cost \$391,456,100 for FY 2017, but the revised estimate is \$379,363,300 (\$12,092,800 less) due to lower-than-budgeted costs for new homes and statutory changes under revised data. Starting point costs for the Homeowner's Rebate for FY 2018 therefore are \$(12,092,800) less than the FY 2017 appropriation.

The \$(12,092,800) amount also is one of 3 components of the department's FY 2017 supplemental. (See FY 2017 Supplemental narrative under Other Issues for more information.)

New Homes

The budget includes an increase of \$6,852,200 from the General Fund in FY 2018 for increased Homeowner's Rebate costs associated with new home construction. The \$6,852,200 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 2018 and that 47.19% of the QTR taxes owed by new homes in FY 2018 will continue to be paid by the state through the Homeowner's Rebate in FY 2018.

Background – The Additional State Aid program authorized by A.R.S. § 15-972 pays 47.19% of each homeowner's QTR taxes, up to a maximum of \$600 per parcel, plus any "1% Cap" costs described below.

Additional State Aid - 1% Cap

The budget includes \$24,330,500 from the General Fund in FY 2018 for the Additional State Aid - 1% Cap line item. This amount funds the following adjustments:

Base Adjustment

The budget includes an increase of \$16,950,200 from the General Fund in FY 2018 in order to reflect higher-than-budgeted costs for the 1% Cap for FY 2017. The FY 2017 budget assumed that the 1% Cap would cost \$7,380,300 for FY 2017, but the revised estimate is \$24,330,500

(\$16,950,200 more) because assumed savings were not realized due to a legal judgment described below. Starting point costs for the 1% Cap for FY 2018 therefore would be \$16,950,200 higher than the FY 2017 appropriation.

The \$16,950,200 amount also is one of 3 components of the department's FY 2017 supplemental. (See FY 2017 Supplemental narrative under Other Issues for more information on the department's FY 2017 Supplemental.)

(See Additional State Aid - 1% Cap narrative in the FY 2017 Appropriations Report for more information the 1% Cap funding shortfall for FY 2017.)

A footnote in the FY 2017 General Appropriation Act allowed the department to use a portion of its FY 2017 appropriations for Basic State Aid (BSA) or Additional State Aid (ASA) to fund a shortfall in BSA or ASA funding, if any, that occurred in FY 2016. This provision allowed the department to use \$12,223,800 of FY 2017 funding to help cover the shortfall in 1% Cap funding that occurred in FY 2016 because of the final ruling in the 1% Cap lawsuit. This amount was less than the foregone state savings of \$19,832,900 for this issue because surplus funding in other areas of the department's budget for FY 2016 made up the difference.

Background – The Additional State Aid program funds the Homeowner's Rebate and any portion of a homeowner's primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home. This second feature is referred to as the "1% cap" and pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary property taxes at no more than 1% of a home's full cash value and was added to the State Constitution in 1980. It applies any time a homeowner's net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner's Rebate is applied.

In practice, the 1% cap historically has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates in order to keep their combined primary rate below \$10 per \$100 of NAV. The related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,423,700 and 10.6 FTE Positions in FY 2018 for Accountability and Achievement Testing.

These amounts consist of:

General Fund	9,423,700
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,900 from the General Fund in FY 2018 for statewide adjustments.

Background – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. The test will cost approximately \$18,500,000 and \$19,500,000 in FY 2017 and FY 2018, respectively (see Table 7). ADE indicates that AzMERIT will cost approximately \$1,000,000 more in FY 2018 due to increased field testing to realign it to new English language arts and mathematics standards approved in December 2016 and because Laws 2016, Chapter 10 requires ADE to implement a new menu of assessments for achievement testing.

The Achievement Testing program, however, also includes components other than AzMERIT testing. It includes AIMS Science Tests, AZELLA testing for English Learners, alternative exams for special needs students, test security costs, information technology support and program administration. ADE estimates that the cost of all of these other functions and AzMERIT combined at approximately \$37,600,000 in FY 2018 versus \$31,500,000 for FY 2017 (see Table 7). ADE indicates that the higher expected costs for FY 2018 are due to AzMERIT changes described above, revising the AIMS Science test to align it with new science standards, making the science and AZELLA tests computer-based, and increased test security and information technology costs associated with the new menu of assessments.

The budget continues an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs.

This line item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the “up to \$7 million”

Table 7
Estimated Achievement Testing Costs and Available Funding
(ADE estimates) (\$ in Millions)

	FY 2017	FY 2018
Estimated Costs ^{1/}		
AzMERIT	\$18.5	\$19.5
AIMS Science Testing	2.8	5.2
Alternative Special Needs Exam	0.2	0.2
AZELLA ^{2/}	7.2	8.0
Test Security	0.0	1.0
Information Technology Support	1.2	2.0
Staff and Administration	1.6	1.7
Total	\$31.5	\$37.6
Estimated Available Funding ^{3/}		
General Fund	\$14.5	\$14.5
Proposition 301 - School Accountability ^{4/}	12.5	9.2
Federal Funds	14.4	14.4
Total	\$41.4	\$38.1

^{1/} ADE estimates for FY 2018 are preliminary.

^{2/} Arizona English Language Learner Assessment (funded through the English Learner Administration line item).

^{3/} Exceeds estimated costs for both years. "Surplus" Proposition 301 monies could be carried forward to subsequent years.

^{4/} Includes carry-forward monies.

allowable appropriation for School Accountability in A.R.S. § 42-5029E7. (See *Other Issues for more information regarding this program's use of Proposition 301 monies.*)

(See *English Learner Administration line item for more information about AZELLA testing.*)

(See *Other Issues in FY 2016 Appropriations Report for more information regarding AzMERIT testing.*)

Adult Education

The budget includes \$4,504,200 and 4.3 FTE Positions from the General Fund in FY 2018 for Adult Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$6,000 from the General Fund in FY 2018 for statewide adjustments.

The program provides instruction in the following areas to adult learners who are at least 16 years of age: 1) English Language Acquisition; 2) Adult Basic Education, including GED preparation; 3) Adult Secondary Education; 4) Civics; and 5) Basic computer literacy skills. Program monies are distributed through a competitive grant process. In FY 2017, 24 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$12,576,500 in federal funding in FY 2017. Its federal monies are subject to non-

supplanting and maintenance-of-effort requirements stipulated in federal law.

Alternative Teacher Development Program

The budget includes \$500,000 from the General Fund in FY 2018 for an Alternative Teacher Development Program. This amount is unchanged from FY 2017.

The program is authorized by A.R.S. § 15-552, which requires the establishment of an alternative teacher development program for accelerating the placement of highly qualified individuals into low income schools. Monies in the line item are distributed to the Teach for America program.

Arizona Structured English Immersion Fund

The budget includes \$4,960,400 from the General Fund in FY 2018 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2017.

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 \$4,107,100 to public schools from the fund in FY 2016.

Broadband Expansion

The budget includes \$3,000,000 from the Automation Projects Fund in FY 2018 for Broadband Expansion. This amount funds the following adjustments:

One-Time Broadband Expansion

The budget includes an increase of \$3,000,000 from the Automation Projects Fund in FY 2018 for one-time funding for broadband expansion. Section 120 of the General Appropriation Act appropriates these monies to a new Broadband Expansion Fund (BEF) (A.R.S. § 15-249.07A) established by Section 3 of the K-12 Education BRB.

A.R.S. § 15-249.07 requires the department to use monies in the BEF to provide state matching monies for broadband construction projects for schools, school districts, libraries and groups of schools or school districts that currently lack broadband access and that are eligible for funding from the federal E-Rate program. The E-Rate program provides matching federal funding to support installation of telecommunications and internet services to schools and libraries. The Education SuperHighway (a nonprofit that assists schools with upgrading their

internet access) estimates that providing broadband internet to Arizona district and charter schools and libraries without that current capability could cost approximately \$130,000,000.

Under the E-Rate program, the maximum amount of available federal monies can only be drawn down with a state contribution. Through at least 2018, state funds can be used to help draw down available federal dollars at up to an effective 9:1 "enhanced" match for K-12 broadband construction projects. The \$3,000,000 one-time appropriation of state funding to the BEF therefore could leverage up to \$27,000,000 of temporarily-enhanced federal E-Rate funding (\$3 million state appropriation X 9 = \$27 million in enhanced E-Rate funding).

In addition, the Arizona Corporation Commission (ACC) on March 14, 2017 approved a temporary surcharge on Arizona consumers' phone bills (approximately 15 cents per month) in order to generate an estimated \$8,000,000 of additional state matching funds for drawing down enhanced E-Rate funding. The surcharge will last 12 months and will generate monies through an ACC fund known as the Arizona Universal Service Fund (AUSF).

The additional \$8,000,000 of AUSF monies are expected to draw down up to an additional \$72,000,000 of federal enhanced E-Rate funding (\$8,000,000 X 9 = \$72,000,000). As a result, up to \$110,000,000 of combined state and federal funding are expected to be available for broadband expansion under the current enhanced E-Rate funding program (\$3,000,000 BEF appropriation + up to \$27,000,000 E-Rate match + \$8,000,000 AUSF supplement + up to \$72,000,000 E-Rate match = \$110,000,000).

The E-Rate program requires applicants to submit proposals for their planned construction projects when applying for E-Rate funding. Before any funds are released from either the AUSF or the BEF, each proposal must be certified by the Arizona Department of Education (ADE) and approved for federal E-Rate funding by the Universal Service Administrative Company (USAC), which administers the federal program. ADE must give priority to schools with higher "discount rates" (a measure of poverty and rural/urban status, defined by the federal E-Rate program) when certifying projects.

A.R.S. 15-249.08 establishes the following additional requirements for the one-time Broadband Expansion program:

- The first \$8,000,000 of cumulative state matching contributions shall be provided by the ACC.
- Certified projects shall provide bandwidth sufficient to meet the standards for educational services for the

relevant funding year by the Federal Communications Commission and may not exceed those standards without good cause, and may be fiber-based or, if determined to be justified by cost, nonfiber based.

- On or before June 30 and December 31 of each year, the department shall report to the Joint Legislative Budget Committee on the status of the project.
- The June 30 report shall be submitted to the Joint Legislative Budget Committee for review.

Code Writers Initiative Pilot Program

The budget includes no funding from the State Web Portal Fund in FY 2018 for the Code Writers Initiative Pilot Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from State Web Portal Fund in FY 2018 for the elimination of one-time funding.

The FY 2017 K-12 Education BRB (Laws 2016, Chapter 124) appropriated \$500,000 in one-time non-lapsing funding from the State Web Portal Fund in FY 2017 for a Code Writers Initiative Pilot Program.

Chapter 124 required the department to allocate program funding on a competitive grant basis with input from the American Indian Advisory Council to participants who would leverage state monies by also securing non-state funding for the program. Program monies were to be used to introduce computer code writing curriculum for Native American students in grades 9–12.

College Credit by Examination Incentive Program

The budget includes \$5,000,000 from the General Fund in FY 2018 for the College Credit by Examination Incentive Program. This amount funds the following adjustments:

First-Year Funding

The budget includes an increase of \$5,000,000 from General Fund in FY 2018 for first-year funding for the College Credit by Examination Incentive Program (CCEIP) established by Laws 2016, Chapter 124.

The enacted FY 2017 budget's 3-year spending plan assumed that this program would start in FY 2018 at the \$5,000,000 funding level.

The program provides incentive bonuses to teachers, school districts and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school pursuant to A.R.S. § 15-249.06. The bonus is \$450 per passing score for a student

who is enrolled in a school district or charter school where at least 50% of students are eligible for free or reduced price lunches under the Federal School Lunch program; otherwise, it is \$300 per passing score. Bonuses shall be reduced proportionately if the appropriated amount is insufficient to fully fund them.

Early Literacy

FY 2018

The budget includes \$8,000,000 from the General Fund in FY 2018 for Early Literacy. This amount funds the following adjustments:

New Program

The budget includes an increase of \$8,000,000 from the General Fund in FY 2018 for a new Early Literacy program (A.R.S. § 15-249.09) established by Section 3 of the K-12 Education BRB.

FY 2019

The budget includes \$12,000,000 from the General Fund in FY 2019 for Early Literacy. This amount funds the following adjustments:

FY 2019 Increase

The budget includes an increase of \$4,000,000 from the General Fund in FY 2019 above FY 2018 for the Early Literacy program. This will provide the program with \$12,000,000 from the General Fund for FY 2019 versus \$8,000,000 for FY 2018. The FY 2019 appropriation for the program appears in Section 136 of the General Appropriation Act.

A.R.S. § 15-249.09 establishes a new Early Literacy Grant Program Fund (ELGPF) to provide support to improve reading skills, literacy and proficiency for students in Kindergarten through 3rd Grade. ELGPF monies are in addition to K-3 Reading Program monies that public schools receive for early literacy instruction pursuant to A.R.S. § 15-211. The latter monies are provided to school districts and charter schools through a "K-3 Reading" funding weight in the Basic State Aid formula.

A.R.S. § 15-249.09 requires the department to administer the ELGPF under policies and procedures to be developed by the State Board of Education (SBE). Subject to review and approval by the SBE, the department shall award program grants on a per pupil basis and on a 3-year cycle to public schools with free and reduced-priced lunch eligibility rates of at least 90% under the National School Lunch and Child Nutrition Acts.

Eligible schools may use grant monies to improve the reading proficiency of students in Kindergarten through Grade 3, such as by funding reading coaches or specialists, reading curricula or tutoring programs.

Subject to review and approval by the SBE, the department shall include a report on the Early Literacy Grant program in the K-3 Reading program plan required by A.R.S. § 15-211.

On a related note, Laws 2017, Chapter 67 makes various changes to the K-3 Reading Program concerning program administration, retention policies, intervention strategies and reporting requirements.

English Learner Administration

The budget includes \$6,519,000 and 14.5 FTE Positions from the General Fund in FY 2018 for English Learner Programs. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$24,000 from the General Fund in FY 2018 for statewide adjustments.

The program is responsible for administering the Arizona English Language Learner Assessment (“AZELLA”) test, which is used to determine whether a student should be classified as an “English Language Learner” (ELL) as defined in A.R.S. § 15-901B9. Students who are classified as ELLs are required to enroll in English language education programs prescribed by A.R.S. §§ 15-751, 15-752 and 15-753 and qualify for ELL weight funding authorized in A.R.S. § 15-943. Approximately 120,000 students were expected to take the AZELLA in FY 2017, including 48,000 for initial testing and 72,000 for retesting to see if they should continue to be classified as ELLs.

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.

(See the Accountability and Achievement Testing line item narrative for more information.)

Geographic Literacy

The budget includes \$100,000 in one-time, non-lapsing funding from the General Fund in FY 2018 for Geographic Literacy. This amount is unchanged from FY 2017.

The FY 2018 General Appropriation Act requires the department to use the appropriated one-time amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in this state.

Jobs for Arizona Graduates

The budget includes \$100,000 from the General Fund in FY 2018 for a Jobs for Arizona Graduates program. This amount funds the following adjustments:

New Funding

The budget includes an increase of \$100,000 from the General Fund in FY 2018 for new state funding of the Jobs for Arizona Graduates program. These monies are appropriated by Section 124 of the General Appropriation Act, which requires the department to distribute them to a nonprofit organization for a Jobs for Arizona Graduates program.

On a related note, Laws 2017, Chapter 324 authorizes a new college and career readiness program for at-risk students to be administered through a private entity selected by the department (A.R.S. § 15-707).

JTED Completion Grants

The budget includes \$1,000,000 from the General Fund in FY 2018 for JTED Completion Grants. This amount funds the following adjustments:

Offset Formula Funding Loss

The budget includes \$1,000,000 in first-time funding from the General Fund in FY 2018 for JTED Completion Grants. This funding will partially offset an estimated \$(1,800,000) reduction in Basic State Aid (BSA) funding that JTEDs will experience in FY 2018 because they no longer can include high school graduates in their ADM counts after FY 2017 (see JTED Funding for High School Graduates policy issue under Basic State Aid for more information). Instead JTEDs may apply to the department for a portion of the \$1,000,000 in JTED Completion Grants funding that is

appropriated to the department for these students starting in FY 2018. The department will distribute the new JTED funding on a grant rather than formula basis. If the appropriated amount is insufficient to fund all grant requests from JTEDs, the department shall reduce grant amounts on a proportional basis in order to cap statewide allocations at \$1,000,000. Monies appropriated for the program are non-lapsing.

A.R.S. § 15-393D4c prohibits JTEDs from including in their ADM counts students who have already graduated from high school or received a general equivalency diploma or who are over 21 years of age. The K-12 Education BRB for FY 2017 temporarily notwithstanding that requirement for some students for FY 2016 and FY 2017. It is in full effect, however, starting in FY 2018.

JTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2018 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2017.

A footnote in the General Appropriation Act requires the department to distribute the appropriated amount to JTEDs with fewer than 2,000 ADM pupils on a pro rata basis for soft capital and equipment expenses.

School Safety Program

The budget includes \$4,147,600 and 3.1 FTE Positions from the General Fund in FY 2018 for the School Safety program. These amounts fund the following adjustments:

School Resource Officers

The budget includes an increase of \$500,000 from the General Fund in FY 2018 for additional School Resource Officers (SROs).

Statewide Adjustments

The budget includes an increase of \$2,000 from the General Fund in FY 2018 for statewide adjustments.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. *(See the FY 2015 Appropriations Report for program history.)*

The K-12 Education BRB continues to require \$100,000 of the program's appropriation to be used for a pilot program on school emergency readiness. The K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2018 program by November 1, 2018. *(See the FY 2017 Appropriations Report for more 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 2018 will be the first year of the next new 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.

On a related note, Laws 2017, Chapter 158 repeals the School Safety Program Oversight Committee established in A.R.S. § 15-154 and shifts its responsibilities to the department and State Board of Education.

State Block Grant for Vocational Education

The budget includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2018 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2017.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. CTE programs also currently receive approximately \$25,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal maintenance-of-effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Teacher Certification

The budget includes \$1,847,300 and 24 FTE Positions from the Teacher Certification Fund in FY 2018 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$19,200 from the Teacher Certification Fund in FY 2018 for statewide adjustments.

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.

Teacher Professional Development Pilot

The budget includes \$300,000 in one-time funding from the General Fund in FY 2018 for a Teacher Professional Development Pilot Program. This amount funds the following adjustments:

One-Time Pilot Program

The budget includes a one-time increase of \$300,000 from the General Fund in FY 2018 for a Teacher Professional Development Pilot Program. These monies are appropriated by Laws 2017, Chapter 284. The program shall issue scholarships or grants, or both, on a competitive basis that will support certificated teachers in gaining additional credentials and certifications at a regionally or nationally accredited public or private institution to teach math, science, technology, engineering or career and technical education in a public school.

Program scholarships and grants may not exceed \$2,000 per applicant. Recipients shall agree to teach in an Arizona public school for at least 3 additional years after completing their professional development program. If that commitment is not met, the recipient shall be required to fully pay back their scholarship.

On or before November 1 of each year of the pilot program the department shall submit to the Governor, President of the Senate and Speaker of the House of Representatives a report that summarizes the results of the pilot program.

Tribal College Dual Enrollment Program Fund

The budget includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2018 for the Tribal College Dual Enrollment Program Fund program. This amount is unchanged from FY 2017.

A.R.S. § 15-244.01 establishes the Tribal College Dual Enrollment Program Fund and authorizes it to annually receive 15% of unclaimed lottery prize monies up to \$250,000, subject to legislative appropriation, pursuant to A.R.S. § 5-568, plus any other appropriations, gifts, grants, devices and other contributions. The fund compensates tribal colleges for tuition and fees that they waive for high school students who are dual enrolled in tribal college classes.

(See Arizona State Lottery Commission narrative for more information on lottery funding.)

Other Issues

This section includes information on the following topics:

General Issues

- Long-Term Budget Impacts
- FY 2017 Supplemental
- Proposition 301 Funding for School Accountability

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers

Basic State Aid

- Basic State Aid Formula Description

Non-Formula Programs

- Education Learning and Accountability System

Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$172,721,300 in FY 2019 above FY 2018 and \$168,265,400 in FY 2020 above FY 2019. These estimates are based on:

- 1.4% ADM growth for both fiscal years.
- 9,900 new charter ADM and 3,000 new special education weighted ADM for both fiscal years.
- GDP inflators of 2% for both FY 2019 and FY 2020 (currently projected at 2.31% for FY 2019 and 2.27% for FY 2020; statute funds the lesser of 2% or the actual rate).
- New construction NAV growth of 2.5% for both FY 2019 and FY 2020.
- General Fund decreases of \$(14.5) million in FY 2019 and \$(10.3) million in FY 2020 for higher endowment earnings.
- A General Fund decrease of \$(24.9) million in FY 2019 due to the elimination of debt service payments on School Facilities Board Land Trust Bonds authorized by Proposition 301 due to final payoff of those bonds in FY 2018, which frees up land trust monies for Basic State Aid in FY 2019.
- A General Fund increase of \$34.0 million in FY 2019 for an additional 1.06% teacher salary increase.

- A General Fund increase of \$4.0 million in FY 2019 for the Early Literacy program, resulting in total program funding of \$12.0 million for FY 2019 pursuant to Section 136 of the General Appropriation Act.
- A General Fund decrease of \$(400,000) in FY 2019 to eliminate one-time funding for Geographic Literacy and a Teacher Professional Development Pilot Program.

FY 2017 Supplemental

The budget includes \$17,081,200 in supplemental funding from the General Fund in FY 2017 to fund estimated shortfalls in Additional State Aid funding for FY 2017. This includes \$12,223,800 to replace FY 2017 monies that were used to fund an Additional State Aid shortfall for FY 2016, as permitted by a footnote in the FY 2017 General Appropriation Act. It also includes \$16,950,200 for a shortfall in 1% Cap funding for FY 2017 and \$(12,092,800) for a surplus in Homeowner's Rebate funding for FY 2017 (\$12,223,800 + \$16,950,200 - \$12,092,800 = \$17,081,200). *(See narrative for the "Additional State Aid - Homeowner's Rebate" and "Additional State Aid - 1% Cap" policy issues for more information.)*

The budget also includes a General Appropriation Act footnote authorizing the department to use a portion of its FY 2018 state General Fund appropriations for Basic State Aid (BSA) and Additional State Aid (ASA) to fund a shortfall in funding for BSA or ASA, if any, that occurred in FY 2017 after review by the Joint Legislative Budget Committee (JLBC).

Proposition 301 Funding for School Accountability

Proposition 301 from the November 2000 General Election allows the Legislature to appropriate no more than \$7.0 million of Proposition 301 revenues annually for school accountability functions, such as achievement testing, achievement profiles, school report cards, "solution teams" to low-achieving schools and information technology maintenance (A.R.S § 42-5029E7). *(See Other Issues in the FY 2018 Baseline for more information.)*

The department has been able to fund some school accountability functions other than achievement testing in recent years with Proposition 301 carry-forward monies that have existed because of lower-than-budgeted costs for achievement testing in the final years of the old Arizona Instrument to Measure Standards (AIMS) contract. For FY 2017, it is spending approximately \$2.2 million of the \$7.0 million on accountability measures other than achievement testing. Unlike in prior years,

however, it has moved those monies out of the Accountability and Achievement Testing line item and into its operating budget.

ADE's funding shift permanently reduces funding to the Accountability and Achievement Testing line item by \$(2.2) million. This is not expected to result in a funding shortfall for achievement testing for the foreseeable future because ADE reports that approximately \$8.1 million of Proposition 301 carry-forward monies that can help fund achievement testing costs existed at the end of FY 2016 and that balance is expected to increase to approximately \$8.6 million by the end of FY 2018 under current estimates. The budget nonetheless maintains the full \$7.0 million appropriation of Proposition 301 monies in the Accountability and Achievement Testing line item for FY 2018.

Endowment Earnings

In FY 2016, endowment earnings from state trust lands funded approximately \$302.8 million of Basic State Aid, School Facilities Board bond debt service and K-12 Classroom Site Fund costs.

Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 in order to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools, with the rest being designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands.

The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates endowment earnings primarily by selling or leasing state trust lands and natural products from trust lands. The State Treasurer generates endowment earnings by investing monies received from the State Land Department from the sale of state trust lands and related natural products in stocks, bonds and other income-earning investments.

State trust land earnings are considered either "permanent" or "expendable" depending on whether they are one-time in nature. Only expendable monies are distributed to beneficiaries, as permanent monies are considered to be part of the original endowment and must be reinvested rather than distributed to beneficiaries. Permanent monies include one-time proceeds from the sale of state trust lands and natural products from state trust lands.

Expendable monies include ongoing income that the State Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer.

The portion of Treasurer land trust earnings that is considered expendable is determined by a formula prescribed in the State Constitution, since the value of invested land trust monies fluctuates daily. Prior to voter approval of Proposition 123 in May 2016, the State Constitution required the State Treasurer to distribute annually to each beneficiary (such as public schools) a flat 2.5% of the average monthly market value of the beneficiary's permanent fund for the immediately preceding 5 calendar years.

The 2.5% factor has been superseded through FY 2025 by a new 6.9% factor required by Proposition 123. After FY 2025, Proposition 123 reestablishes the 2.5% factor on a permanent basis.

In FY 2016, public schools received \$302.8 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$43.5 million from the Land Department and \$259.3 million from the State Treasurer (see Table 8).

Source	2015	2016	2017 est ^{1/}	2018 est ^{2/}
Land Department	53.2	43.5	74.4	48.5
Treasurer ^{3/}	76.0	259.3	269.6	294.8
Total	129.2	302.8	344.0	343.3

1/ Land Department estimate includes \$25.9 million of forfeited land purchase payments from cancelled contracts (one-time monies).
 2/ Assumes no change in trust land lease revenues for FY 2018.
 3/ Growth in FY 2016 due to increasing the distribution percentage from 2.5% to 6.9%.

Table 8 shows that K-12 endowment earnings are estimated to increase to \$344.0 million in FY 2017 and \$343.3 million in FY 2018.

Of the \$302.8 million in K-12 expendable earnings generated for FY 2016, \$219.4 million was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$24.9 million was used to fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 (see Table 9). The remaining \$58.5 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

Proposition 301 narrative below for more information on the Classroom Site Fund and Proposition 301.)

Source	2015	2016	2017 ^{1/}	2018 ^{2/}
Basic State Aid	47.3	219.4	219.3	235.4
SFB Debt Service	25.0	24.9	24.9	24.9
Classroom Site Fund ^{2/}	56.9	58.5	99.8	83.0
Total	129.2	302.8	344.0	343.3

1/ Estimated
 2/ Growth in FY 2017 is due to default on prior land purchase, which converts past principal payments into one-time expendable earnings.

Proposition 123 Triggers

Proposition 123 allows the state to temporarily suspend future inflation increases during periods of economic slowdown in which sales tax revenue and employment both grew more than 1% but less than 2% in the prior year [if only one factor falls into the 1-2% range, there is no suspension]. It would require this suspension if sales tax revenue and employment both grew less than 1%. Since 1992, economic conditions would have met the 1-2% threshold in 1 year and would have met the 1% threshold in 3 years.

The proposition also allows the state to reduce the 6.9% distribution rate to no less than 2.5% for the following fiscal year if the 5-year average balance of the State Land Trust Permanent Fund fell below the average balance of the preceding 5 years. The criteria for reducing the distribution rate would not have been met in the last 10 years, as no 5-year period since 2001 has averaged a lower balance than the preceding 5 years.

Beginning in FY 2026, the proposition allows (but does not require) 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.

(Please see the FY 2017 Appropriations Report for more information on Proposition 123.)

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 Charter Additional Assistance (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 2018 (as modified by the FY 2018 K-12 Education BRB) equal \$1,775.05 per pupil for Grades K-8 and \$2,068.79 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Education Learning and Accountability System

The FY 2018 budget includes \$7,300,000 one-time from the Automation Projects Fund (APF) in the Department of Administration budget for “implementing, upgrading and maintaining ELAS” (*see Section 115 of the General Appropriations Act*). This amount is unchanged from FY 2017 and is non-lapsing. In addition, any remaining FY 2017 ELAS project balances may be used for ELAS costs in FY 2018. Before spending these monies, the department must submit an expenditure plan for them to the Joint Legislative Budget Committee for review pursuant to A.R.S. § 41-714.

Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (ELAS), in order to “collect, compile, maintain and report student level data for students attending public educational institutions that provide instruction to pupils in preschool programs, kindergarten programs, grades 1 through 12 and postsecondary educational programs in this state” (A.R.S. § 15-249A). Since FY 2015, ELAS funding has been appropriated to the Arizona Department of Administration rather than ADE. As a result, ELAS funding no longer appears in the ADE budget.

ELAS has received approximately \$61.1 million in total funding from all sources since its inception, including the \$7.3 million appropriated from the General Fund for FY 2018. The General Fund has provided \$45.8 million of the \$60.3 million total with the remainder coming from temporary fees from university and community college students (approximately \$7.2 million cumulatively) and Federal Funds (approximately \$7.3 million cumulatively) (*see Table 10*).

To date, project funding has been used primarily for the following purposes:

- Develop and partially implement data “dashboards” (AZDash) that can provide graphical depictions of data to aid in decision-making, such as to guide instruction. (Full functionality not yet implemented.)

Table 10

**ELAS Funding by Fiscal Year
(\$ in Millions)**

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Higher Ed Fees</u> ^{1/}	<u>Federal Grants</u> ^{2/}	<u>Total</u>
2012	5.0	1.6	0.1	6.7
2013	5.0	1.6	1.8	8.4
2014	5.4	1.6	2.8	9.8
2015	10.4	1.6	2.6	14.6
2016	5.4	1.6	0.0	7.0
2017	7.3	0.0	0.0	7.3
2018	7.3	0.0	0.0	7.3
Total	45.8	8.0	7.3	61.1

^{1/} Generated from a \$6 per FTSE fee from university and community college pupils. The FY 2012 and FY 2013 budgets appropriated \$1.2 million based on initial estimates. Amount generated above those totals were carried forward into subsequent years.

^{2/} Included \$5.0 million from a statewide longitudinal data system (SLDS) grant and \$2.3 million from a "Race to the Top" grant.

- Develop and partially implement a new data-collection and retrieval system (AzEDS) to eliminate redundant data collection and make data more retrievable for multiple purposes. (Full functionality not yet implemented.)
- Develop and partially implement a Statewide Student Information System (SSIS) that school districts and charters can opt into in order to purchase student information system services at a state-contracted rate.
- Automate school finance calculations for components computed manually under SAIS, such as for Classroom Site Fund per pupil allocations.
- Begin planning to replace the core school finance calculation functions of SAIS ("APOR" and "CHAR"), which calculate funding amounts for individual school districts and charter schools under the Basic State Aid formula.

Starting in FY 2017, all schools submitted student data through AzEDS rather than through the old Student Accountability Information System (SAIS) for the first time, and school payments were based on student counts from AzEDS rather than SAIS. SAIS continues to be used to calculate formula payments for individual school districts and charter schools using AzEDS data, however, because the formula calculation functions of SAIS (APOR and CHAR) have not yet been replaced in ELAS.

(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)

Proposition 301

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 in order to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on

most purchases from 5% to 5.6% through FY 2021 in order to generate more funding for public education. It also amended A.R.S. § 42-5029 in order to prescribe how the new sales tax revenues would be allocated (*see Table 11*).

As shown in *Table 11*, 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 \$364.1 million (56.6%) of the \$643.8 million collected for FY 2016 (*see Table 11*). 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 2016, the Classroom Site Fund received approximately \$57.8 million from K-12 endowment earnings, which resulted in total deposits of \$421.9 million (\$364.1 million from the 0.6¢ sales tax + \$57.8 million from endowment earnings = \$421.9 million).

Proposition 123 from the October 2015 Special Session further amended A.R.S. § 37-521B4 in order to dedicate all growth in state land trust revenues from the voter-approved 4.4% increase in the trust distribution percentage (from 2.5% previously to 6.9% through FY 2025) to Basic State Aid, rather than to the Classroom Site Fund. The latter, however, will continue to receive all growth in the original 2.5% distribution after FY 2001 to the extent that those earnings plus related earnings from the State Land Department exceed \$72.3 million.

Table 11

		Proposition 301 Monies (FY 2016 Actual) (\$ In Millions)	
Recipient	Amount		Comment
School Facilities Board	\$64.1		For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	69.6		Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	17.4		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	\$176.9		
Additional School Days	\$86.3		To add 5 days to K-12 school year (180 days total).
School Safety and Character Education	8.0		\$7.8 million for School Safety (A.R.S. § 15-154) and \$0.2 million for Character Education (A.R.S. § 15-154.01).
School Accountability	7.0		For school accountability pursuant to A.R.S. § 15-241 and § 15-1041.
Failing Schools	1.5		To Failing Schools Tutoring Fund (A.R.S. § 15-241CC).
Classroom Site Fund	<u>364.1</u>		Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	\$466.9		
Grand Total	\$643.8		

The \$364.1 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2016 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 11*. Those 2 amounts combined equaled \$466.9 million for FY 2016.

ADE distributed \$327 per pupil from the Classroom Site Fund in FY 2016. Those monies were in addition to funds allocated through the Basic State Aid formula. School districts and charter schools may use Classroom Site Fund monies for any purpose listed in A.R.S. § 15-977H, which includes items such as class size reductions and teacher compensation.

The Classroom Site Fund is expected to distribute \$332 per pupil for FY 2017 and \$386 per pupil for FY 2018 pursuant to A.R.S. § 15-977G1.

Budget Overrides

Current law permits school districts to exceed statutory budget limits through “budget override” elections. This includes Maintenance and Operation (M&O) overrides (A.R.S. § 15-481E&F), Special Program overrides (A.R.S. § 15-482) and District Additional Assistance overrides (called Capital Overrides prior to FY 2014) (A.R.S. § 15-481L&M).

M&O and Special Program overrides together are capped at 15% of a district’s Revenue Control Limit (RCL). (“RCL” essentially equals a district’s total funding under the Basic State Aid formula minus its District Additional Assistance

funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district’s RCL.

M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 2017, 93 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 3 had “Special Program” overrides pursuant to A.R.S. § 15-482, and 22 had District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2017 included \$466.0 million for M&O overrides, \$0.9 million for Special Program overrides and \$75.0 million for District Additional Assistance overrides. Grand total budgeted override funding for FY 2017 therefore equaled \$541.9 million, which was \$78.7 million above the \$463.2 million amount budgeted for all overrides collectively in FY 2016 (see *Table 12*). (See the *School Facilities Board Budget narrative for a related summary on K-12 Capital Bonding*.)

Table 12

**K-12 Budget Overrides
(\$ in Millions)**

<u>Type of Override</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Change</u>
M&O	401.0	466.0	65.0
Special Program	1.2	0.9	(0.3)
Additional Assistance	61.0	75.0	14.0
Total	463.2	541.9	78.7

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 12* are from the related ADE reports for FY 2016 and FY 2017.

Additional Legislation

High School Students; Course Time

Laws 2017, Chapter 333 requires the hours in which a student is scheduled to attend a high school during the regular school day to be included in the calculation of Average Daily Membership (ADM) for that student. Under Chapter 333 "regular school day" means the regularly scheduled class periods intended for instructional purposes, which may include core subjects, elective subjects, lunch, study halls, music instruction, and other classes that advance the academic instruction of pupils, except that instructional purposes shall not include athletic practices or extracurricular clubs and activities.

Prior to Chapter 333, a high school student's ADM was based only on instructional hours in courses that count toward graduation.

Concurrent Enrollment

Laws 2017, Chapter 155 modifies criteria for determining Average Daily Membership (ADM) for a high school pupil who also enrolls in courses at a community college or university that qualify for both high school and community college credit ("concurrent enrollment"). Prior to Chapter 155 a community college course had to meet for at least 40 hours per semester in order to be included in ADM calculations. Chapter 155 instead establishes the following requirement:

- The student must earn at least 3 semester hours of credit per semester in the community college or university course in order for the course to count as a "subject" for purposes of ADM calculations.
- The student must attend at least one course offered at the school district or charter school per semester.
- The student's school district or charter school must pay their community college or university tuition for the course or reimburse their tuition cost and must award the student high school academic credit for the course.

- ADM shall be based on the combined hours that the student is enrolled in at the school district or charter school and at the community college or university.
- ADM shall be calculated by dividing the combined hours by 720, except that if a student in grade 9 through 12 participates in Arizona online instruction, average daily membership shall be calculated by dividing the combined hours by 900.

JTED Courses and Programs

Laws 2017, Chapter 279 modifies statutory requirements for JTED programs and courses. Key changes include the following:

- Exempts community college courses and programs from the requirement that a majority of instructional time be conducted in a laboratory, field-based or work-based learning environment.
- Requires specialized materials, in addition to specialized equipment, to satisfy the requirement for instruction that exceeds the cost of a standard educational course.
- Requires industry-based assessments and certification only if appropriate and available; otherwise requires JTED programs to lead to career readiness and entry-level employment.
- Halts funding for JTED courses and programs in the current year, rather than the preceding year, if they do not meet statutory requirements as determined by ADE during the 5-year reviews beginning in 2020.
- Specifies the CTE Division of ADE determines whether a satellite JTED course or program meets statutory requirements.
- The bill is retroactive to June 30, 2010.

School Level Budget Reporting

Laws 2017, Chapter 211 requires schools to report school level budget information and directs the Office of the Auditor General (OAG) to identify the methods and formats for reporting this information beginning in FY 2021.

Rural STEM Program Fund

Laws 2017, Chapter 302 establishes the Rural STEM Program Fund to support science, technology, engineering and math programs in rural schools. It consists of legislative appropriations, grants, gifts, devises and donations from any source. Monies in the fund are continuously appropriated and non-lapsing. The department shall administer the fund and may use not more than 5% of the monies deposited in the fund in a fiscal year for program administration.

Department of Emergency and Military Affairs

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
PROGRAM BUDGET			
Administration	1,850,400	1,908,000	1,920,500
Emergency Management	7,390,400	7,690,500	7,716,400
Military Affairs	1,503,300	3,021,000	3,039,800
AGENCY TOTAL	10,744,100	12,619,500	12,676,700
OPERATING BUDGET			
Full Time Equivalent Positions	69.6	69.6	69.6 ^{1/2/}
Personal Services	1,573,500	2,106,100	2,106,100
Employee Related Expenditures	556,400	797,700	834,700
Professional and Outside Services	133,400	150,000	150,000
Travel - In State	57,900	5,000	5,000
Travel - Out of State	12,400	23,000	23,000
Other Operating Expenditures	1,386,000	2,482,400	2,482,400
Equipment	303,700	0	0
OPERATING SUBTOTAL	4,023,300	5,564,200	5,601,200
SPECIAL LINE ITEMS			
Emergency Management Assistance Compact Revolving Fund Deposit	300,000	0	0
Emergency Management Matching Funds	1,540,900	1,540,900	1,547,100
Governor's Emergency Fund	3,434,400	4,000,000	4,000,000 ^{3/}
Nuclear Emergency Management Program	1,385,900	1,424,400	1,438,400 ^{4/5/}
Military Airport Planning	59,600	90,000	90,000 ^{6/}
AGENCY TOTAL	10,744,100	12,619,500	12,676,700 ^{7/8/}
FUND SOURCES			
General Fund	10,744,100	12,619,500	11,238,300
<u>Other Appropriated Funds</u>			
Nuclear Emergency Management Fund	0	0	1,438,400
SUBTOTAL - Other Appropriated Funds	0	0	1,438,400
SUBTOTAL - Appropriated Funds	10,744,100	12,619,500	12,676,700
<u>Other Non-Appropriated Funds</u>			
Federal Funds	31,200	244,800	150,000
TOTAL - ALL SOURCES	65,456,000	80,000,100	68,295,600

^{1/} Includes 5.5 FTE Positions in FY 2018 appropriated by Laws 2017, Chapter 43 and 1 FTE Position appropriated by A.R.S. § 26-263.

^{2/} Includes 1 GF and 5.5 OF FTE Positions funded from Special Line Items in FY 2018.

^{3/} Includes expenditures authorized by A.R.S. § 35-192, which states that up to \$4,000,000 may be spent on disaster prevention and mitigation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

^{4/} Laws 2017, Chapter 43 appropriated \$1,438,465 and 5.5 FTE Positions in FY 2018 and \$1,461,602 and 5.5 FTE Positions in FY 2019 from the Nuclear Emergency Management Fund to DEMA.

^{5/} Pursuant to A.R.S § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriation; any unexpended monies, however, shall be used to reduce the assessment and appropriation in future years.

^{6/} A.R.S. § 26-263 annually appropriates \$90,000 and 1 FTE Position from the General Fund for the administration of the Military Installation Fund. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

^{7/} The Department of Emergency and Military Affairs appropriation includes \$1,700,000 for service contracts. This amount is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2018 monies remaining unexpended and unencumbered on December 31, 2018 revert to the state General Fund. (General Appropriation Act footnote)

^{8/} General Appropriation Act funds are appropriated as a Lump Sum by Program with Special Line Items by Agency.

AGENCY DESCRIPTION — The department's Emergency Management Program prepares and coordinates emergency response plans for the state. The Military Affairs Program operates the Arizona National Guard and the Military Installation Fund Program.

Operating Budget

The budget includes \$5,601,200 and 63.1 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$37,000 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Emergency Management Assistance Compact Revolving Fund Deposit

The budget includes no funding in FY 2018 for the Emergency Management Assistance Compact (EMAC) Revolving Fund deposit. This amount is unchanged from FY 2017.

The FY 2017 Government Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 121) created the EMAC Revolving Fund with a one-time FY 2016 General Fund deposit of \$300,000, matched by a commensurate decrease in the FY 2016 General Fund Governor's Emergency Fund authorization.

Monies in the fund will provide funding for DEMA's emergency assistance efforts in other states, thus allowing DEMA to avoid having to reallocate other operating monies to this purpose. Per the EMAC, the state receiving assistance will reimburse DEMA for the costs the department incurs while providing assistance in the state. These monies will be deposited into the EMAC Revolving Fund to backfill any expenditures from the fund. *(Please see the Governor's Emergency Fund line item for more information.)*

Emergency Management Matching Funds

The budget includes \$1,547,100 from the General Fund in FY 2018 for Emergency Management Matching Funds. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$6,200 from the General Fund in FY 2018 for statewide adjustments.

The line item provides funding for the required 1:1 match for the Federal Emergency Management Performance Grant (EMPG) not covered with existing DEMA resources.

EMPG monies are allocated to DEMA who then either expends them or passes monies on to other state, county, and municipal agencies to help provide planning, training, and other preparation for natural hazards and emergencies. In FY 2016, DEMA received \$7,033,400 in EMPG funds.

In FY 2016, DEMA utilized the \$1,540,900 General Fund appropriation from this line item, \$717,700 in General Fund monies from the Nuclear Emergency Management Fund line item, and \$729,500 in General Fund monies from the operating budget for a total of \$2,988,100, as a match towards their share of the EMPG. As a result, DEMA will retain \$2,988,100 in EMPG monies for DEMA-specific expenditures.

The remaining \$4,045,300 in federal EMPG monies will be awarded to counties, tribes, and municipalities for their emergency preparedness programs. These funds require a match from local fund sources prior to expenditure.

Governor's Emergency Fund

The budget includes \$4,000,000 from the General Fund in FY 2018 for the Governor's Emergency Fund. This amount is unchanged from FY 2017.

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.

Nuclear Emergency Management Program

The budget includes \$1,438,465 and 5.5 FTE Positions from the Nuclear Emergency Management Fund (NEMF) in FY 2018 for the Nuclear Emergency Management Program line item. These amounts fund the following adjustments:

Change Funding Source

The budget includes an increase of \$14,088 in FY 2018 for the Nuclear Emergency Management Program line item. This amount consists of:

General Fund	\$(1,424,377)
Nuclear Emergency Management Fund	1,438,465

Laws 2017, Chapter 43 appropriates \$1,438,465 and 5.5 FTE Positions from NEMF in FY 2018 and \$1,461,602 in FY 2019. As a result, these monies do not appear in the FY 2018 General Appropriation Act.

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 NEMF appropriation.

The Nuclear Emergency Management Program was previously funded by Laws 2015, Chapter 132, which appropriated \$1,385,913 and 5.5 FTE Positions from the General Fund in FY 2016 and \$1,424,377 and 5.5 FTE Positions in FY 2017 for the program. Chapter 132 offset this General Fund appropriation with the NEMF fees, which were deposited into the General Fund.

Chapter 43 directs the fees to the NEMF rather than the General Fund. These monies are now appropriated directly from 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.

The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture received monies from Chapter 43. The NEMF appropriation amounts for FY 2017-FY 2019 are displayed

in Table 1. (Please see the Department of Agriculture and the Radiation Regulatory Agency narratives for more information.)

Military Airport Planning

The budget includes \$90,000 and 1 FTE Position from the General Fund in FY 2018 for Military Airport Planning. These amounts are unchanged from FY 2017.

Prior to receiving a one-time deposit of \$2,500,000 in FY 2015, the Military Installation Fund had received no General Fund appropriation since FY 2011. The FY 2012 General Government BRB eliminated the annual \$4,825,000 General Fund deposit into the Military Installation Fund in statute. A.R.S. § 26-263 retained the annual \$90,000 and 1 FTE Position administrative appropriation to the department and an annual \$85,000 appropriation to the Attorney General. Since these monies are appropriated in statute, they do not appear in the General Appropriation Act.

As of March 20, 2017, the fund had an unreserved balance of \$2,898,800. 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.

The FY 2018 Budget Procedures BRB (Laws 2017, Chapter 307), as permanent law, modifies A.R.S. § 41-1252 to clarify that the Joint Committee on Capital Review shall review all grants for capital projects before monies are expended.

Table 1

Nuclear Emergency Management Fund

Agency	FY 2017		FY 2018		FY 2019	
	FTEs	Approp.	FTEs	Approp.	FTEs	Approp.
Emergency and Military Affairs ^{1/}	5.5	\$1,424,377	5.5	\$1,438,465	5.5	\$1,461,602
Radiation Regulatory Agency	5.5	789,663	5.5	789,663	5.5	789,663
Agriculture	1.88	198,434	2.88	275,012	2.88	275,012
Total	12.88	\$2,412,474	13.88	\$2,503,140	13.88	\$2,526,277

^{1/} The Emergency and Military Affairs appropriation includes the appropriations for the Maricopa County Department of Emergency Management and the City of Buckeye.

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. These matching funds are for military grants, whereas the Emergency Management Matching Funds line item is for emergency-related grants. These military grants have a matching requirement of 5-50%.

In FY 2016, DEMA was awarded \$28,891,000 in National Guard Military Operations and Maintenance Projects monies, which required matches from the state. Of this amount, \$1,492,400 required a 50% match, or \$746,200; \$3,204,000 required a 25% match, or \$801,000; and \$3,456,000 required a 5% match, or \$172,800, for a total required match of \$1,720,000. DEMA utilized \$528,300 from their non-lapsing FY 2015 state match appropriation in addition to the \$215,000 FY 2016 state match appropriation and \$230,000 in one-time vacancy savings from the Military Affairs appropriation for total available resources of \$973,300. In order to provide an adequate match, the FY 2017 budget provided an FY 2016 supplemental of \$746,700 in General Fund monies to meet the full FY 2016 state match need.

DEMA is estimating their FY 2017 match need will be \$1,700,000. To fund that amount, DEMA is using \$746,700 from the FY 2016 supplemental appropriation continued into FY 2017 plus an added \$738,300 in new FY 2017 monies for a total of \$1,485,000. When combined with the \$215,000 in the original base, DEMA will have a total of \$1,700,000 for state match purposes in FY 2017.

Department of Environmental Quality

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	12,822,000	16,495,700	16,495,700
Employee Related Expenditures	4,884,700	7,250,200	7,549,400
Professional and Outside Services	2,601,300	6,424,900	6,424,900
Travel - In State	321,700	431,800	431,800
Travel - Out of State	15,400	111,500	111,500
Other Operating Expenditures	11,969,300	15,143,600	15,143,600
Equipment	217,300	432,700	432,700
OPERATING SUBTOTAL	32,831,700	46,290,400	46,589,600
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	20,160,900	21,119,500	21,119,500
Safe Drinking Water Program	1,579,700	1,800,000	1,800,000 ^{1/}
WQARF Priority Site Remediation	7,000,000	9,948,600	13,536,900 ^{2/3/4/}
AGENCY TOTAL	61,572,300	79,158,500	83,046,000 ^{5/}
FUND SOURCES			
General Fund	7,000,000	2,823,600	2,823,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	3,298,300	8,236,400	7,381,900
Emergency Response Fund	43,100	132,800	132,800
Emissions Inspection Fund	25,154,600	32,620,500	30,610,100
Hazardous Waste Management Fund	1,110,000	1,734,600	1,744,300
Indirect Cost Recovery Fund	11,467,800	13,375,200	13,464,000 ^{6/}
Permit Administration Fund	5,506,800	7,114,100	10,876,300 ^{7/}
Recycling Fund	945,200	1,352,900	2,361,300
Safe Drinking Water Program Fund	0	0	1,800,000
Solid Waste Fee Fund	732,200	1,239,000	1,247,400
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	6,314,300	10,507,400	10,582,300
SUBTOTAL - Other Appropriated Funds	54,572,300	76,334,900	80,222,400
SUBTOTAL - Appropriated Funds	61,572,300	79,158,500	83,046,000
Other Non-Appropriated Funds	33,121,200	86,132,800	56,132,800
Federal Funds	7,616,700	18,120,300	18,120,300
TOTAL - ALL SOURCES	102,310,200	183,411,600	157,299,100

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.

^{1/} Before the expenditure of any monies from the Safe Drinking Water Program line item, the Department of Environmental Quality shall submit an expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{2/} A.R.S. § 49-282 requires an annual \$15,000,000 transfer from the Corporate Income Tax to the Water Quality Assurance Revolving Fund. Although the transfer is not included in the annual General Appropriation Act, it would be shown here as a General Fund expenditure. Laws 2017, Chapter 308 reduced this transfer to \$2,823,600 in FY 2018, but utilizes balances of \$4,000,000 from the Emissions Inspection Fund, \$2,000,000 from the Air Quality Fund, \$3,713,300 from the Permit Administration Fund, and \$1,000,000 from the Recycling Fund to increase total appropriated WQARF funding to \$13,536,900.

Operating Budget

The budget includes \$46,589,600 and 322 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
Air Quality Fund	\$5,381,900
Emergency Response Commission	132,800
Emissions Inspection Fund	5,490,600
Hazardous Waste Management Fund	1,744,300
Indirect Cost Recovery Fund	13,464,000
Permit Administration Fund	7,163,000
Recycling Fund	1,361,300
Solid Waste Fee Fund	1,247,400
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,582,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$299,200 in FY 2018 for statewide adjustments. This amount consists of:

Air Quality Fund	20,500
Emissions Inspection Fund	39,600
Hazardous Waste Management Fund	9,700
Indirect Cost Recovery Fund	88,800
Permit Administration Fund	48,900
Recycling Fund	8,400
Solid Waste Fee Fund	8,400
Water Quality Fee Fund	74,900

(Please see the Agency Detail and Allocations section.)

The FY 2018 Environment Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 308) continues to allow the department to utilize up to \$6,531,000 from the

Underground Storage Tank Revolving (UST) Fund in FY 2018 for department administrative expenses.

Emissions Control Contractor Payment

The budget includes \$21,119,500 from the Emissions Inspection Fund in FY 2018 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2017.

Monies appropriated to this line item are used to pay the Emissions Control Program contractor. Under the contract, the contractor remits the entire amount of the fee to ADEQ for deposit in the Emissions Inspection Fund. ADEQ then determines the amount due to the contractor, based on the number of vehicles inspected, and makes payments to the contractor on a regular basis.

The Emissions Control Program is operated by an independent contractor in the Phoenix Metropolitan Area and the Tucson Metropolitan Area with the purpose of identifying and repairing polluting motor vehicles. The program is funded through test fees that are charged to motorists at the time of inspection. Statute does not specify a fee level. The Director of ADEQ has the statutory authority to specify the fees required to pay for the full cost of the Vehicle Emissions Inspection Program.

The FY 2018 Environment BRB continues to reduce emissions inspection fees by \$3.00 in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties. *(Please see Other Issues for more information.)*

- 3/ The Department of Environmental Quality shall report annually on the progress of WQARF activities, including emergency response, priority site remediation, cost recovery activity, revenue and expenditure activity and other WQARF-funded program activity. The department shall submit the FY 2018 report to the Joint Legislative Budget Committee on or before September 1, 2017. 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 2018. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 1, 2017, 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 2017, indicate whether the current stage of remediation is anticipated to be completed in FY 2018 and indicate the anticipated stage of remediation at each listed site at the end of FY 2018, assuming FY 2018 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)
- 4/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2019 budget for the Water Quality Assurance Revolving Fund before September 1, 2017, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)
- 5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 6/ All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,464,000 in FY 2018 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,464,000 in FY 2018, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations).
- 7/ All Permit Administration Fund monies received by the Department of Environmental Quality in excess of \$10,867,300 in FY 2018 are appropriated to the department. Before the expenditure of Permit Administration Fund monies in excess of \$10,867,300 in FY 2018, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations).

Safe Drinking Water Program

The budget includes \$1,800,000 from the Safe Drinking Water Program Fund in FY 2018 for the Safe Drinking Water Program. This amount funds the following adjustments:

New Funding Source

The budget includes a decrease of \$(1,800,000) from the Emissions Inspection Fund in FY 2018 and a corresponding increase of \$1,800,000 from the Safe Drinking Water Program Fund in FY 2018 to shift program funding to a more appropriate source.

The FY 2018 Environment BRB modifies statute to redirect the first \$1,800,000 of Public Water System (PWS) tax revenue to the new appropriated Safe Drinking Water Program Fund. Prior to this change, these PWS monies were deposited into the Water Quality Assurance Revolving Fund.

ADEQ's expenditures for the Safe Drinking Water Program appear in *Table 1*.

Position or Function	Actual FY 2016	Estimated FY 2017
Direct Personnel	\$1,016,500	\$1,114,400
Indirect Cost Fund	454,800	498,600
Contracting	60,700	90,600
Travel	18,700	29,500
Other	29,000	66,900
Total	\$1,579,700	\$1,800,000

WQARF Priority Site Remediation

The budget includes \$13,536,900 in FY 2018 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

General Fund	2,823,600
Emissions Inspection Fund	4,000,000
Air Quality Fund	2,000,000
Permit Administration Fund	3,713,300
Recycling Fund	1,000,000

These amounts fund the following adjustments:

WQARF Funding Shifts

The budget includes a net increase of \$3,588,300 in FY 2018 for Interim WQARF Funding for WQARF Priority Site Remediation. This amount consists of:

Emissions Inspection Fund	(250,000)
Air Quality	(875,000)
Permit Administration	3,713,300
Recycling Fund	1,000,000

The FY 2018 Environment BRB includes a legislative intent statement that the fund balances of these funds be evaluated to determine whether there are sufficient monies available to continue to use these fund sources for WQARF funding in FY 2019.

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 2018 Environment BRB continued to notwithstanding these statutory provisions and established in session law the FY 2018 appropriations. *Table 2* describes program activity for FY 2016, FY 2017, and FY 2018.

Additionally, the FY 2018 Environment BRB includes a legislative intent statement that these amounts be supplemented by \$1,500,000 of non-appropriated monies directly deposited into WQARF, which consists of other revenue generated from various license and registration fees. With \$440,000 of spending in the Department of Water Resources, Department of Health Services, and Aid to Municipalities, total WQARF spending would be \$15,476,900.

	Actual FY 2016	Estimated FY 2017	Estimated FY 2018
Balance Forward	\$ 5,682,100	\$ 2,766,400	\$ 691,500
General Fund	7,000,000	2,823,600	2,823,600
Transfers In	0	7,125,000	10,713,300
Fees and Cost Recovery	<u>3,856,000</u>	<u>3,238,000</u>	<u>1,500,000</u>
Total Funds Available	\$16,538,100	\$15,953,000	\$15,728,400
Program	<u>13,771,700</u>	<u>15,261,500</u>	<u>15,476,900</u>
Year-End Balance	\$ 2,766,400	\$ 691,500	\$ 251,500

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.

Other Issues

Vehicle Emissions Inspection Fees

As shown in *Table 3*, ADEQ estimated the VEI Program generated more in fees than administration of the program in FY 2016, but that surplus has been eliminated from FY 2017 onward.

	Actual	Estimated	Estimated
Revenues	FY 2016	FY 2017	FY 2018
Balance Forward	\$17,318,000	\$16,262,000	\$9,755,500
Fees	<u>29,730,200</u>	<u>26,764,000</u>	<u>26,764,000</u>
Total Revenues	\$47,048,200	\$43,026,000	\$36,519,500
Expenditures			
Inspections ^{1/}	24,206,500	27,220,500	26,570,500
SDWP	1,579,700	1,800,000	0
APF	5,000,000	0	0
WQARF	<u>0</u>	<u>4,250,000</u>	<u>4,000,000</u>
Total Expenditures	\$30,786,200	\$33,270,500	\$30,570,500
Total Balance	\$16,262,000	\$ 9,755,500	\$ 5,949,000

^{1/} Includes approximately \$5.5 million annually for ADEQ costs in the operating budget.

In prior years, the resulting balances have been utilized for other programs. Between FY 2014 and FY 2016, \$16.8 million in excess revenues were transferred to the Arizona Department of Administration (ADOA) to fund a new ADEQ e-licensing system through the Automation Projects Fund (APF). The FY 2018 budget does not include transfers from the Emissions Inspection Fund (VEI Fund) for this purpose, nor does it fund the Safe Drinking Water Program (SDWP) from the VEI Fund. The FY 2018 budget appropriates \$4.0 million from the VEI Fund for WQARF.

The FY 2017 budget reduced fees by a total of \$3.0 million, which translated into a reduction of \$3.00 per emissions inspection fee in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties.

The FY 2018 Environmental Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 308) continues to reduce emissions inspection fees by \$3.00 in Area A. This does not affect Area B, which refers to the Tucson Metropolitan Area. Area A's onboard diagnostic (OBD) test fee is reduced from \$20.00 to \$17.00, its steady state and idle test fee is reduced from \$19.00 to \$16.00, and its heavy-duty diesel test fee is reduced from \$28.00 to \$25.00.

This change is estimated to reduce fees on over 1.2 million tests conducted annually and reduce VEI Fund revenues by approximately \$3.7 million annually. *Table 3* shows the estimated revenues and expenditures of the VEI Fund after fee reductions and the additional utilization of the fund for WQARF Priority Site Remediation.

Phoenix Metropolitan Area and Tucson Metropolitan area vehicle owners pay different rates as outlined below:

- Vehicle owners in the Phoenix area pay \$17.00 for the OBD test, while those in the Tucson area pay \$12.25 for the same test. Regardless of location, ADEQ pays its contractor \$13.85 for each diagnostic test.
- Owners of heavy-duty diesel trucks in the Phoenix area pay \$25.00 for each test, while those in the Tucson area pay \$12.25 for each test. Regardless of location, ADEQ pays its contractor \$23.50 for each heavy-duty diesel test.

Additional Legislation

Water Quality Monitoring

The FY 2018 Environmental BRB, as session law, allows ADEQ to utilize the Water Quality Fee Fund (WQFF) to help fund the Water Quality Monitoring Program. Additional revenues from operator certification fees, which were established in FY 2017, allow WQFF to absorb this expense. WQFF will collect an estimated \$358,400 in operator certification fees in FY 2017. Prior to FY 2018, an estimated \$722,900 of WQARF monies were spent annually to fund the entirety of the Water Quality Monitoring Program. Per the budget, approximately \$358,400 will come out of WQFF and the remaining \$364,500 will come out of WQARF. The WQARF revenues being utilized by the program come from Public Water System (PWS) tax revenues retained in WQARF after \$1,800,000 of the PWS monies are utilized for the Safe Drinking Water Program.

ADEQ Web Portal Development

The budget includes a FY 2018 transfer of \$3,200,000 from the Underground Storage Tank Revolving Fund to the Arizona Department of Administration for Phase 4 of the ADEQ web portal, myDEQ, which will automate additional permitting and compliance processes that are currently conducted with paper. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

The FY 2018 Environmental BRB (Laws 2017, Chapter 308) allows the department to utilize monies from the

Underground Storage Tank Revolving (UST) Fund in FY 2018 for expenses other than the UST Program.

Small Drinking Water Systems Fund

Laws 2017, Chapter 213 renames the Small Water Systems Fund the Small Drinking Water Systems Fund and makes other changes to the fund and its administration including:

- Establishing the requirement that the Water Infrastructure Finance Authority (WIFA) enter into agreements with grantees that require certain levels of performance.
- Expanding grant eligibility to general grants from emergency grants and to owners of small water systems from the prior requirement of the recipient being an interim operator.
- Permitting WIFA to consult with DEQ prior to issuing a grant.
- Altering the threshold for grant eligibility from 500 connections to 10,000 persons that can be serviced by the small water system.
- Requiring WIFA to certify the public benefit of a grant.

The Small Water Systems Fund was previously used to issue emergency grants to small public water systems that were run by appointed interim operators.

Governor's Office of Equal Opportunity

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	134,400	125,500	125,500
Employee Related Expenditures	49,100	50,900	53,700
Professional and Outside Services	600	5,000	5,000
Travel - In State	100	1,200	1,200
Travel - Out of State	0	4,500	4,500
Other Operating Expenditures	3,100	2,000	2,000
AGENCY TOTAL	187,300	189,100	191,900 ^{1/}
FUND SOURCES			
General Fund	187,300	189,100	191,900
SUBTOTAL - Appropriated Funds	187,300	189,100	191,900
TOTAL - ALL SOURCES	187,300	189,100	191,900

AGENCY DESCRIPTION - The agency monitors equal opportunity plans submitted annually by each state agency and assists agencies in equal employment opportunity training and evaluation.

Operating Budget

The budget includes \$191,900 and 4 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,800 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

State Board of Equalization

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7.0	7.0	7.0
Personal Services	257,700	400,500	400,500
Employee Related Expenditures	70,500	71,000	74,400
Professional and Outside Services	7,600	9,000	9,000
Travel - In State	13,100	13,100	13,100
Other Operating Expenditures	176,000	148,600	148,600
Equipment	900	800	800
AGENCY TOTAL	525,800	643,000	646,400^{1/}
FUND SOURCES			
General Fund	525,800	643,000	646,400
SUBTOTAL - Appropriated Funds	525,800	643,000	646,400
TOTAL - ALL SOURCES	525,800	643,000	646,400

AGENCY DESCRIPTION — The State Board of Equalization consists of 41 seats. 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 31 current members, the 13 gubernatorial appointments also hear appeals of centrally-valued properties and equalization orders by the Department of Revenue.

Operating Budget

The budget includes \$646,400 and 7 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,400 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocation section.)

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

Board of Executive Clemency

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	484,600	527,100	527,100
Employee Related Expenditures	185,000	205,400	216,300
Professional and Outside Services	38,800	38,800	38,800
Travel - In State	1,300	5,000	5,000
Other Operating Expenditures	176,300	176,300	176,300
Equipment	6,500	0	0
AGENCY TOTAL	892,500	952,600	963,500 ^{1/2/}
FUND SOURCES			
General Fund	892,500	952,600	963,500
SUBTOTAL - Appropriated Funds	892,500	952,600	963,500
Federal Funds	41,500	43,600	43,600
TOTAL - ALL SOURCES	934,000	996,200	1,007,100

AGENCY DESCRIPTION — The board consists of 1 full-time chairman and 4 full-time members. The board conducts home arrest, parole, or work furlough release hearings at all adult prison institutions for prisoners convicted prior to January 1, 1994. The board considers executive clemency actions such as pardons, commutations, and absolute discharges for all prisoners convicted on or after January 1, 1994.

Operating Budget

The budget includes \$963,500 and 14 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$10,900 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Caseload Data

Pursuant to a footnote in the FY 2017 General Appropriation Act, the board is required to submit a report on its FY 2016 caseload by November 1, 2016. The board conducted 4,173 case hearings in FY 2016, as described below:

- Phases 1 and 2 Commutation (501): 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 (19): 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 (8): The board can recommend to the Governor that an inmate's sentence be modified or commuted.
- Reprieve (0): The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.
- Parole (397): 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 (3,241): These hearings are conducted when an offender has violated the terms of community supervision.

^{1/} The Board of Executive Clemency shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before November 1, 2017 on the total number and types of cases the board reviewed in FY 2017. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Exposition and State Fair Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.0	184.0	184.0
Personal Services	3,488,900	3,591,700	3,591,700
Employee Related Expenditures	1,013,200	1,046,500	1,086,500
Professional and Outside Services	3,769,500	3,793,300	3,793,300
Travel - In State	11,800	5,000	5,000
Travel - Out of State	10,000	7,000	7,000
Other Operating Expenditures	3,014,900	3,069,800	3,569,800
Equipment	18,500	100,000	100,000
AGENCY TOTAL	11,326,800	11,613,300	12,153,300 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Exposition and State Fair Fund	11,326,800	11,613,300	12,153,300
SUBTOTAL - Other Appropriated Funds	11,326,800	11,613,300	12,153,300
SUBTOTAL - Appropriated Funds	11,326,800	11,613,300	12,153,300
TOTAL - ALL SOURCES	11,326,800	11,613,300	12,153,300

AGENCY DESCRIPTION — The Arizona Exposition and State Fair Board is custodian of the 96-acre State Fairgrounds and Memorial Coliseum properties. The board directs and conducts the annual Arizona State Fair and leases the coliseum and fairgrounds facilities for special events, including the annual Arizona National Livestock Show.

Operating Budget

The budget includes \$12,153,300 and 184 FTE Positions from the Arizona Exposition and State Fair Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Marketing and Performance Enhancement

The budget includes an increase of \$500,000 from the Arizona Exposition and State Fair Fund to enhance marketing, advertising and entertainment options at the Arizona Exposition and State Fair.

Statewide Adjustments

The budget includes an increase of \$40,000 from the Arizona Exposition and State Fair Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Department of Financial Institutions

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.1	69.1	69.1 ^{1/}
Personal Services	2,423,300	2,611,000	2,761,000
Employee Related Expenditures	996,200	1,048,400	1,173,600
Professional and Outside Services	167,300	108,700	108,700
Travel - In State	3,000	3,000	9,000
Travel - Out of State	1,700	2,000	5,000
Other Operating Expenditures	513,600	541,700	565,700
Equipment	104,900	116,400	122,400
OPERATING SUBTOTAL	4,210,000	4,431,200	4,745,400
SPECIAL LINE ITEMS			
Real Estate Appraisal	532,100	815,100	682,400 ^{2/}
AGENCY TOTAL	4,742,100	5,246,300	5,427,800 ^{3/4/}
FUND SOURCES			
General Fund	2,904,300	2,978,200	2,201,000 ^{1/}
<u>Other Appropriated Funds</u>			
Board of Appraisal Fund	532,100	815,100	0 ^{2/}
Financial Services Fund	1,305,700	1,453,000	3,226,800
SUBTOTAL - Other Appropriated Funds	1,837,800	2,268,100	3,226,800
SUBTOTAL - Appropriated Funds	4,742,100	5,246,300	5,427,800
Other Non-Appropriated Funds	1,203,400	1,388,700	1,079,600
TOTAL - ALL SOURCES	5,945,500	6,635,000	6,507,400

AGENCY DESCRIPTION — The department regulates state-chartered financial entities. The regulated entities include money transmitters, motor vehicle dealers, holding companies, trust companies, sales finance companies, collection agencies, escrow agents, debt management companies, consumer lenders, mortgage bankers, mortgage brokers, premium finance companies, credit unions and banks. Beginning in FY 2016, the department also regulates real estate appraisal entities which were previously overseen by the State Board of Appraisal.

Operating Budget

The budget includes \$4,745,400 and 60.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$1,518,600
Financial Services Fund	3,226,800

These amounts fund the following adjustments:

Financial Institutions Division Examiners

The budget includes an increase of \$250,500 from the Financial Services Fund in FY 2018 for 3 new examiner positions within the Financial Institutions Division, including \$6,000 for one-time equipment costs. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff. The new positions will examine the financial soundness of banks, credit unions, savings and loan organizations, and trust companies. The number of assets held by these institutions has increased 133% since 2008; the time

^{1/} Includes 9 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} The General Appropriation Act (Laws 2017, Chapter 305) appropriates \$815,100 from the Board of Appraisal Fund in FY 2018. However, Laws 2017, Chapter 334 eliminates the Board of Appraisal Fund, transfers any amount remaining in the fund to the General Fund, and appropriates \$675,000 from the General Fund for real estate appraisal duties. The Real Estate Appraisal Special Line Item was further increased for statewide adjustments.

^{3/} The Department of Financial Institutions shall assess and set fees to ensure that monies deposited in the state General Fund will equal or exceed the department's expenditure from the state General Fund. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

required to complete examinations has also increased. These positions will allow the department to meet the increased examination load.

Funding Shift

The budget includes a decrease of \$(1,500,000) from the General Fund and a corresponding increase of \$1,500,000 from the Financial Services Fund in FY 2018 for a fund shift. There are sufficient ongoing revenues in the Financial Services Fund to meet the ongoing expenditures as a result of the fund shift.

The FY 2018 Revenue Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 312) continues to allow the agency to use the Financial Services Fund in FY 2018 for general operating expenditures.

Statewide Adjustments

The budget includes an increase of \$63,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	40,400
Financial Services Fund	23,300

(Please see the Agency Detail and Allocation section.)

Real Estate Appraisal

The budget includes \$682,400 and 9 FTE Positions from the General Fund in FY 2018 for Real Estate Appraisal. These amounts fund the following adjustments:

Elimination of Board of Appraisal Fund

The budget includes a decrease of \$(140,100) as a result of Laws 2017, Chapter 334, which eliminates the Board of Appraisal Fund. This amount consists of:

General Fund	675,000
Board of Appraisal Fund	(815,100)

The FY 2016 Agency Consolidation BRB (Laws 2015, Chapter 19) merged the State Board of Appraisal into the Department of Financial Institutions and gives the authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions.

Laws 2017, Chapter 334 made conforming changes to various statutes regarding the department's real estate appraisal duties as a result of the agency consolidation. Among these changes was the elimination of the Board of Appraisal Fund. Licensing fee revenues will now be deposited in the General Fund rather than in the Board of Appraisal Fund. These new General Fund deposits will offset the new General Fund appropriation for the Real

Estate Appraisal Division. The new appropriated total more closely matches incoming appraisal fee revenue received by the department.

Statewide Adjustments

The budget includes an increase of \$7,400 from the General Fund in FY 2018 for statewide adjustments.

Other Issues

Additional Legislation

Department Receivership Revolving Fund

The FY 2018 Revenue BRB extends department spending authority from the Receivership Revolving Fund for the purchase of the electronic licensing system permitted by the FY 2014 Revenue BRB (Laws 2013, 1st Special Session, Chapter 9) through FY 2018. Total expenditures for the purchase of the system in FY 2014 through FY 2018 may not exceed a total of \$850,000. Through May 2017, the department has spent \$348,000 of the allotted \$850,000.

Department of Fire, Building and Life Safety

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	48.0	0.0	0.0
Personal Services	896,800	0	0
Employee Related Expenditures	372,800	0	0
Professional and Outside Services	53,600	0	0
Travel - In State	120,200	0	0
Travel - Out of State	1,000	0	0
Other Operating Expenditures	535,100	0	0
Equipment	25,700	0	0
OPERATING SUBTOTAL	2,005,200	0	0
SPECIAL LINE ITEMS			
State Fire School	167,900	0	0
AGENCY TOTAL	2,173,100	0	0
FUND SOURCES			
General Fund	2,173,100	0	0
SUBTOTAL - Appropriated Funds	2,173,100	0	0
Other Non-Appropriated Funds	515,200	0	0
Federal Funds	304,700	0	0
TOTAL - ALL SOURCES	2,993,000	0	0

AGENCY DESCRIPTION — The agency enforced safety standards for manufactured homes, mobile homes, and factory-built buildings. The agency also included the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona. Beginning in FY 2017, the responsibilities of the Department of Fire, Building and Life Safety were transferred to the Arizona Department of Forestry and Fire Management, the Arizona Department of Housing, and the State Real Estate Department.

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transferred the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Management, the Arizona Department of Housing, and the State Real Estate Department, effective July 1, 2016. *(Please see the Department of Forestry and Fire Management narrative for more information.)*

Arizona Department of Forestry and Fire Management

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	55.0	67.0	88.0 ^{1/}
Personal Services	1,623,300	1,857,000	1,932,000
Employee Related Expenditures	683,900	742,800	810,500
Professional and Outside Services	58,300	0	0
Travel - In State	14,500	15,000	15,000
Travel - Out of State	13,200	15,000	15,000
Other Operating Expenditures	299,000	224,600	224,600
Equipment	7,700	0	169,900
OPERATING SUBTOTAL	2,699,900	2,854,400	3,167,000
SPECIAL LINE ITEMS			
Environmental County Grants	250,000	250,000	250,000
Fire Suppression	4,000,000	4,085,000	4,065,000 ^{2/}
Hazardous Vegetation Removal	685,300	1,350,000	1,350,000 ^{3/}
Inmate Firefighting Crews	629,200	686,200	699,100
One-Time Equipment	0	302,500	0
Post-Release Firefighting Crews	0	0	1,465,100
State Fire Marshal	0	742,600	753,200
State Fire School	0	172,100	173,100
AGENCY TOTAL	8,264,400	10,442,800	11,922,500 ^{4/}
FUND SOURCES			
General Fund	8,264,400	10,442,800	11,922,500
SUBTOTAL - Appropriated Funds	8,264,400	10,442,800	11,922,500
Other Non-Appropriated Funds	40,782,600	43,616,800	43,616,800
TOTAL - ALL SOURCES	49,047,000	54,059,600	55,539,300

AGENCY DESCRIPTION - The Arizona Department of Forestry and Fire Management is responsible for the prevention and suppression of forest fires on State Trust Land and private land outside incorporated municipalities (about 22 million acres total). Beginning in FY 2017, the department also includes the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training provided by the department must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona.

Operating Budget

The budget includes \$3,167,000 and 43 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Deputy Fire Marshal

The budget includes an increase of \$100,000 and 1 FTE Position from the General Fund in FY 2018 for an

additional Deputy Fire Marshal. Deputy Fire Marshals perform inspections on public buildings and schools throughout the state to ensure fire safety compliance.

Fire Communication Equipment

The budget includes an increase of \$169,900 from the General Fund in FY 2018 for Fire Communication Equipment. Of that amount, \$30,000 is ongoing and \$139,900 is one-time. These monies will fund a new

^{1/} Includes 45 GF FTE Positions funded from Special Line Items in FY 2018.

^{2/} A.R.S. § 37-623.02 annually appropriates \$3,000,000 from the General Fund to the Fire Suppression Revolving Fund. Because this authorization is in permanent statute, \$3,000,000 of the \$4,065,000 appropriation is not included in the General Appropriation Act.

^{3/} The appropriation for the Hazardous Vegetation Removal line item is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, through June 30, 2019. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

dispatch system, satellite-supported GPS units for firefighters, and upgrades to agency IT equipment.

Statewide Adjustments

The budget includes an increase of \$42,700 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Environmental County Grants

The budget includes \$250,000 from the General Fund in FY 2018 for Environmental County Grants. This amount is unchanged from FY 2017.

Monies in this line item have been used by Greenlee, Graham, Gila, Navajo, and Apache Counties for environmental projects that impact economic development in those counties. The Arizona Department of Forestry and Fire Management must approve any project prior to expenditure of the monies.

In FY 2017, this funding supported the following 10 projects:

- \$37,500 for the *Four Forest Restoration Initiative* which supports large scale forest restoration and the implementation of a successor strategy to the White Mountain Stewardship Contract. The contract allowed the U.S. Forest Service to use the value of materials harvested during restoration treatments to subsidize restoration expenditures while also providing a long term supply of logged wood and other biomass material to the White Mountain timber industry.
- \$37,500 to address *Threatened and Endangered Species* concerns with a focus on the Mexican Gray Wolf recovery and experimental population programs. These monies will also be used to conduct a National Environmental Policy Act analysis of species listings, habitat designation, and recovery programs in eastern Arizona.
- \$25,000 for *Watershed Restoration Issues* with a focus on the development and implementation of the Black River Stewardship Agreement project and the restoration of the C.C. Craigin reservoir watershed. Common watershed restoration issues include uncharacteristic runoffs, flooding, soil erosion, and sedimentation in streams and reservoirs.
- \$25,000 for *Infrastructure Projects* to fund the protection, development, and management of eastern Arizona electrical generation, water collection, and transportation infrastructures.
- \$25,000 for *Recreation Projects* to support the existing motorized recreation activity and promote greater recreation-based economic development.

These monies will also be used to further develop a connected trails system along the Mogollon Rim for off-highway vehicles.

- \$25,000 for *Energy Projects* to support the development and implementation of renewable energy production facilities and other energy-based economic development projects. These monies will also be used to convert eastern Arizona coal power plants nearing the end of their operational lifespan into natural gas facilities.
- \$25,000 for *Natural Resource Planning* for participation in the development and implementation of comprehensive Natural Resources Management Plans.
- \$12,500 for *Public Lands* for participation in the development and implementation of ecologically and economically sustainable management plans for public lands in Arizona and the West.
- \$12,500 for *Water Projects* for participation in the development and implementation of strategies for water usage including the development of a long-term sustainability plan for Arizona's water balance, implementing conservation and augmentation measures, and the preservation of rural and agricultural Arizona interests and economies.
- \$25,000 for *Emerging Issues* to develop and implement effective planning and execution strategies for emerging issues.

Fire Suppression

The budget includes \$4,065,000 from the General Fund in FY 2018 for Fire Suppression. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(20,000) from the General Fund in FY 2018 for the elimination of one-time funding. The FY 2017 budget included \$85,000 for the purchase of Fire Management software. Of that amount, \$65,000 is ongoing and \$20,000 was one-time.

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 \$4,065,000 is not included in the General Appropriation Act.

Hazardous Vegetation Removal

The budget includes \$1,350,000 from the General Fund in FY 2018 for a Hazardous Vegetation Removal Program. This amount is unchanged from FY 2017.

This line item funds hazardous material removal programs that treat state and private lands through prescribed burning or thinning of flammable vegetation. This work can be conducted by Arizona Department of Forestry and Fire Management crews or through fuel reduction grants to contractors. The FY 2018 appropriation is non-lapsing through June 30, 2019.

Inmate Firefighting Crews

The budget includes \$699,100 and 13 FTE Positions from the General Fund in FY 2018 for Inmate Firefighting Crews. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$12,900 from the General Fund in FY 2018 for statewide adjustments.

These monies provide firefighting training for 12 inmate fire crews. The crews act as first responders and are used for fuel treatment and fire suppression.

Post-Release Firefighting Crews

The budget includes \$1,465,100 and 20 FTE Positions from the General Fund in FY 2018 for a new Post-Release Firefighting Crews line item. Of this amount, \$1,000,000 is ongoing and \$465,100 is one-time.

Monies in this line item will fund firefighting training for recently released inmates who previously participated in Inmate Firefighting Crews (*see above*). The Post-Release Firefighting Program will allow program participants to work towards completing their wildland firefighting certification following release from Department of Corrections custody.

One-Time Equipment

The budget includes no funding from the General Fund in FY 2018 for One-Time Equipment. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(112,500) from the General Fund in FY 2018 for the elimination of one-time funding for the purchase of a new wildland fire engine.

Remove One-Time Funding

The budget includes a decrease of \$(190,000) from the General Fund in FY 2018 for elimination of one-time funding for the purchase of a new inmate fire crew carrier vehicle.

State Fire Marshal

The budget includes \$735,200 and 11 FTE Positions from the General Fund in FY 2018 for the State Fire Marshal. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$10,600 from the General Fund in FY 2018 for statewide adjustments.

The Office of the State Fire Marshal enforces the state fire codes and provides training and education for fire personnel and the general public.

Laws 2016, Chapter 128 transferred the State Fire Marshal's Office from the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Safety. (*Please see the Fire, Building and Life Safety narrative for additional information.*)

State Fire School

The budget includes \$173,100 and 1 FTE Position from the General Fund in FY 2018 for the State Fire School. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,000 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item mainly go to help subsidize smaller rural volunteer fire departments attending Arizona State Fire School workshops which provide firefighting education. Generally, fire departments pay for tuition, but the firefighters pay for their room and board to attend the 4-day Fire School. The Arizona State Fire Training Committee, a non-profit organization, coordinates and manages the Fire School. The majority of Fire School workshops take place at the Mesa Convention Center in downtown Mesa with the exception of a few workshops that must be held at designated off-site locations.

Besides \$100,000 for subsidizing these costs, the remaining \$73,100 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

Laws 2016, Chapter 128 transferred this line item from the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Safety. (*Please see the Fire, Building and Life Safety narrative for additional information.*)

State Board of Funeral Directors and Embalmers

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	193,500	193,500	193,500
Employee Related Expenditures	71,800	71,800	76,700
Professional and Outside Services	17,900	17,900	17,900
Travel - In State	2,200	2,300	2,300
Other Operating Expenditures	50,700	87,700	87,700
Equipment	100	100	100
AGENCY TOTAL	336,200	373,300	378,200 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Funeral Directors' and Embalmers' Fund	336,200	373,300	378,200
SUBTOTAL - Other Appropriated Funds	336,200	373,300	378,200
SUBTOTAL - Appropriated Funds	336,200	373,300	378,200
TOTAL - ALL SOURCES	336,200	373,300	378,200

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 located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$378,200 and 4 FTE Positions from the Board of Funeral Directors' and Embalmers' Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$4,900 from the Board of Funeral Directors' and Embalmers' Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$27,500 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

Arizona Game and Fish Department

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	273.5	273.5	273.5
Personal Services	13,623,600	15,208,400	15,208,400
Employee Related Expenditures	9,017,800	10,272,500	11,263,600
Professional and Outside Services	1,467,900	1,785,800	1,785,800
Travel - In State	252,900	287,100	287,100
Travel - Out of State	104,300	124,300	124,300
Other Operating Expenditures	10,915,000	13,188,200	13,081,000
Equipment	993,300	372,300	372,300
OPERATING SUBTOTAL	36,374,800	41,238,600	42,122,500
SPECIAL LINE ITEMS			
Game and Fish Trucks	0	0	485,700
Watercraft Grants	0	1,000,000	1,000,000
Watercraft Safety Equipment	0	0	701,000
AGENCY TOTAL	36,374,800	42,238,600	44,309,200 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Capital Improvement Fund	1,000,900	1,001,200	1,001,200
Game and Fish Fund	32,168,600	35,687,600	37,110,600
Game, Non-Game, Fish and Endangered Species Fund	113,200	345,800	346,800
Watercraft Licensing Fund	3,075,900	5,187,800	5,834,400
Wildlife Endowment Fund	16,200	16,200	16,200
SUBTOTAL - Other Appropriated Funds	36,374,800	42,238,600	44,309,200
SUBTOTAL - Appropriated Funds	36,374,800	42,238,600	44,309,200
Other Non-Appropriated Funds	26,844,300	34,086,300	33,333,800
Federal Funds	42,491,100	46,010,700	44,050,200
TOTAL - ALL SOURCES	105,710,200	122,335,600	121,693,200

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 budget includes \$42,122,500 and 273.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
Capital Improvement Fund	\$1,001,200
Game and Fish Fund	36,624,900
Game, Non-Game, Fish and Endangered Species Fund	346,800
Watercraft Licensing Fund	4,133,400
Wildlife Endowment Fund	16,200

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(375,000) from the Watercraft Licensing Fund in FY 2018 for the elimination of one-time funding for programs and equipment that curtail the spread of aquatic invasive species. These efforts primarily focus on quagga mussels, which harm native species and habitats; impair irrigation and power generation facilities; and negatively affect watercraft recreation. Quagga mussels affect new areas via watercraft transport and interconnected waterways. The FY 2017 budget included \$125,000 to purchase 3 new mobile decontamination units and a transport truck and

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

\$250,000 for research with state universities to discover if there are biological, chemical, or other factors that preclude the presence of aquatic invasive species.

Aquatic Invasive Species

The budget includes an increase of \$513,800 from the Watercraft Licensing Fund in FY 2018 for programs and equipment that curtail the spread of aquatic invasive species. This amount includes one-time funding of \$285,000 to purchase 6 new mobile decontamination units, provide contractor training for those units, conduct internal genetics-based research on population control, and continue development and implementation of a multi-state watercraft tracking database. The remaining amount includes \$228,800 ongoing funding to sustain public-private partnerships with decontamination contractors.

The new ongoing funding will expand decontamination efforts by providing resources for the department to enter into additional contractor agreements similar to its existing one with an independent contractor. These agreements may be through an independent, marina-associated or transporter-associated contractor.

In October 2016, the department entered an agreement with a decontamination contractor for a pilot program. When a marina, boat transporter, or boat owner contacts the department that a boat requires decontamination, the department schedules and pays for that contractor service. The contractor uses AGFD decontamination units to fulfill these duties, while paying its own operating costs. As of May 2017, AGFD has spent \$44,900 on 44 decontaminations.

PSPRS Retirement Adjustment

The budget includes an increase of \$641,900 in FY 2018 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate. This amount consists of:

Game and Fish Fund	626,800
Watercraft Licensing Fund	15,100

These monies fund an increase in the AGFD employer contribution rate from 93.60% in FY 2017 to 104.71% in FY 2018.

Remove One-Time Funding

The budget includes a decrease of \$(246,000) from the Watercraft Licensing Fund in FY 2018 for the elimination of one-time funding to replace the 2 oldest, highest meter-hour boats in the department’s watercraft law enforcement fleet.

Statewide Adjustments

The budget includes an increase of \$349,200 in FY 2018 for statewide adjustments. This amount consists of:

Game and Fish Fund	310,500
Game, Non-Game, Fish and Endangered Species Fund	1,000
Watercraft Licensing Fund	37,700

(Please see the Agency Detail and Allocations section.)

Game and Fish Trucks

The budget includes \$485,700 from the Game and Fish Fund in FY 2018 for Game and Fish Trucks. This amount funds the following adjustments:

Truck Replacement

The budget includes a one-time increase of \$485,700 from the Game and Fish Fund in FY 2018 for the replacement of 9 law enforcement officer trucks

Game and Fish law enforcement officers use heavy-duty, four-wheel drive trucks to operate in remote, off-road locations throughout the state. The increase replaces the 9 highest-mileage trucks, each with over 128,000 odometer miles.

Watercraft Grants

The budget includes \$1,000,000 from the Watercraft Licensing Fund in FY 2018 for the Watercraft Grants line item. This amount is unchanged from FY 2017.

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.

Watercraft Safety Equipment

The budget includes \$701,000 from the Watercraft Licensing Fund in FY 2018 for Watercraft Safety Equipment. This amount funds the following adjustments:

Watercraft Safety Equipment

The budget includes a one-time increase of \$701,000 from the Watercraft Licensing Fund in FY 2018 for the replacement of 8 patrol boats, the repair of 4 patrol boats, and continued implementation of free lifejacket loaner stations.

Game and Fish law enforcement officers use patrol boats to enforce boating safety laws on state waters. The funding replaces boats with passenger safety flaws and irreparable structural issues, and repairs boats that can extend their lives by replacing motors, upholstery, gelcoats and fixing fiberglass damage. In accordance with the department's watercraft safety program, lifejacket loaner stations use an honor system to provide the public with lifejackets in case they do not have an adequate amount for their boating activities.

Other Issues

Additional Legislation

Capital Projects

The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) appropriated \$530,000 in FY 2018 from the Game and Fish Fund for building renewal projects, which are used for major repair and maintenance of state-owned buildings. This amount is available for use through the end of FY 2019. *(Please see the Capital Outlay ADOA Building System section for more information.)*

Game and Fish In-Lieu Fee Program Restoration Endowment Trust Fund

Laws 2017, Chapter 186 establishes the Game and Fish In-Lieu Fee Program Restoration Endowment Trust (In-Lieu Trust) Fund. The Clean Water Act of 1972 made it illegal to engage in any activity that may pollute navigable waters without a permit. Entities who cannot avoid engaging in such activities must pay a compensatory fee for the permit; those revenues are then spent on federally authorized environmental restoration projects. The federal government uses state in-lieu agents to administer those permits. In-Lieu Trust Fund monies will be spent on federally authorized restoration projects and to administer the department's obligations as an in-lieu fee agent.

Wildlife Theft Prevention Fund

Laws 2017, Chapter 13 expands the permitted usage of the Wildlife Theft Prevention Fund to include investigations into fraud related to licenses, permits, tags or stamps and investigations into the unlawful taking, possession or use of wildlife, regardless of commercial or noncommercial intent.

Department of Gaming

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	155.8	155.8	155.8 ^{1/}
Personal Services	3,765,000	4,686,100	4,686,100
Employee Related Expenditures	1,493,000	1,564,500	1,564,500
Professional and Outside Services	412,400	441,100	441,100
Travel - In State	250,600	250,700	250,700
Travel - Out of State	27,400	30,000	30,000
Other Operating Expenditures	1,186,700	1,058,600	1,058,600
Equipment	100,400	264,500	264,500
OPERATING SUBTOTAL	7,235,500	8,295,500	8,295,500
SPECIAL LINE ITEMS			
Additional Operating Expenses	0	768,400	768,400 ^{2/}
Arizona Breeders' Award	0	200,000	250,000
Casino Operations Certification	1,622,700	2,081,800	2,105,400
County Fairs Livestock and Agriculture Promotion	1,779,500	1,779,500	1,779,500 ^{3/}
Division of Racing	2,468,000	2,886,000	1,917,900
Problem Gambling	1,909,300	2,287,000	2,287,000
AGENCY TOTAL	15,015,000	18,298,200	17,403,700 ^{4/}
FUND SOURCES			
General Fund	1,779,500	1,979,500	1,779,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	8,844,800	11,050,900	11,050,900
Racing Regulation Fund	2,468,000	2,886,000	2,167,900
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,622,700	2,081,800	2,105,400
SUBTOTAL - Other Appropriated Funds	13,235,500	16,318,700	15,624,200
SUBTOTAL - Appropriated Funds	15,015,000	18,298,200	17,403,700
Other Non-Appropriated Funds	1,783,900	1,370,000	1,370,000
TOTAL - ALL SOURCES	16,798,900	19,668,200	18,773,700

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 were transferred to the Department of Gaming.

Administrative Expenses

The budget includes \$9,063,900 in FY 2018 for administration expenses, which consists of \$8,295,500 for operating budget expenditures and \$768,400 in a

separate line item for additional operating budget expenditures.

^{1/} Includes 73.5 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} The Department of Gaming shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 1, 2017 on the expected amount and purpose of expenditures from the Additional Operating Expenses line item for FY 2018. The report shall include the projected line item detail. (General Appropriation Act footnote)

^{3/} The amount appropriated to the County Fairs Livestock and Agriculture Promotion line item is for deposit in the County Fairs Livestock and Agriculture Promotion Fund established by A.R.S. § 5-113, and to be administered by the Office of the Governor. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

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 2018, 9% of tribal gaming revenues are forecasted to be \$8,167,700. The budget includes \$8,167,700 in FY 2018, as 9% of projected revenue is greater than \$8,000,000.

The budget provides added flexibility should the Department of Gaming exceed forecasted tribal gaming revenues. The budget includes an added \$768,400 in a separate line item if revenues exceed projections. This would allow the department to expend more of the FY 2018 amount up to \$9,063,900.

Problem Gambling

The budget includes \$2,287,000 for Problem Gambling, which consists of \$1,987,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

The department's actual spending level for Problem Gambling from the Arizona Benefits Fund will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative and the Tribal-State Gaming Compacts, the department's Problem Gambling expenses from the Arizona Benefits Fund are limited to 2% of revenues.

In FY 2018, 2% of tribal gaming revenues are projected to be \$1,815,100. In that circumstance, the department would not be able to fully 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 2018 amount up to \$1,987,000.

Gaming Revenues

From FY 2016 to FY 2017, state gaming revenues grew 2.63% to \$90,752,600. The budget projects that gaming revenues will remain flat in FY 2017 and FY 2018 at a level of \$90,752,600. (See Table 3 for more information on projected state revenues and department allocations.)

Operating Budget

The budget includes \$8,295,500 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Additional Operating Expenses

The budget includes \$768,400 from the Arizona Benefits Fund in FY 2018 for additional operating expenses. The department would be required to report on any new administrative spending. This amount is unchanged from FY 2017.

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 2018, these resources will be allocated to the appropriate operating budget line items. (See footnote on additional operating expenses reporting.)

Arizona Breeders' Award

The budget includes \$250,000 from the Racing Regulation Fund in FY 2018 for the Arizona Breeders' Award line item. This amount funds the following adjustments:

Change Award Funding Source

The budget includes an increase of \$50,000 in FY 2018 for the Arizona Breeders' Award line item. This amount consists of:

	FY 2018
General Fund	\$(200,000)
Racing Regulation Fund	250,000

The Arizona Breeders' Award was previously funded through a General Fund appropriation. Monies in this line item are deposited in the non-appropriated Arizona Breeders' Award Fund. The fund provides awards to the breeder of every winning horse foaled in the state. In FY 2017, this line item funded awards equal to 40% of the purse won by the horse.

Casino Operations Certification

The budget includes \$2,105,400 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2018 for Casino Operations Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$23,600 from the Tribal-State Compact Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and

all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

County Fairs Livestock and Agriculture Promotion

The budget includes \$1,779,500 from the General Fund in FY 2018 for County Fairs Livestock and Agriculture Promotion. This amount is unchanged from FY 2017.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona’s livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

Division of Racing

The budget includes \$1,917,900 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2018 for operating costs associated with the Division of Racing. These amounts fund the following adjustments:

Realign Racing Division Appropriation

The budget includes a decrease of \$(1,000,000) from the Racing Regulation Fund in FY 2018 to realign the division's appropriation amount to reflect a lower Racing Wagering Assessment level. The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) reduces the Racing Wagering Assessment (RWA) rate from 0.85% to 0.5% in FY 2018.

The RWA is a regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee. The RWA is the primary funding source for the Division of Racing. All monies received from the RWA are deposited into the Racing Regulatory Fund.

Table 1 displays evaluation metrics used to measure the regulatory activity level of the division. Between FY 2008 and FY 2016, racing activities significantly decreased while during that same time period the amount of administrative funding appropriated to the division has not substantially changed.

Statewide Adjustments

The budget includes an increase of \$31,900 from the Racing Regulation Fund in FY 2018 for statewide adjustments.

The Division of Racing regulates the pari-mutuel horse and greyhound racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties. The Division of Racing also oversees the Arizona Boxing and Mixed Martial Arts Commission. The commission is responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona.

Problem Gambling

The budget includes \$2,287,000 and 5 FTE Positions in FY 2018 for Problem Gambling. These amounts consist of:

Arizona Benefits Fund	1,987,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2017.

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, 2% of tribal revenues received by the state shall be appropriated from the Arizona Benefits Fund to the department to provide problem gambling prevention, treatment, and education programs. The budget includes \$1,987,000 for FY 2018 from the Arizona Benefits Fund. (See Table 3 for more information on projected state revenues and department allocations.)

Table 1

Racing Regulatory Activities and Budget

	<u>FY 2008</u>	<u>FY 2016</u>	<u>% Change</u>
Animals Tested	6,900	3,800	(45)
Live Races	10,200	4,500	(56)
On-Track Attendance	819,425	393,338	(52)
Racing Handle	\$230,800,000	\$125,500,000	(46)
Appropriated Funds	\$2,661,600	\$2,468,000 ^{1/}	(7)

^{1/} Does not include \$1,779,500 GF appropriation for the County Fairs Livestock and Agriculture Promotion Special Line Item as those monies are used for promotional efforts.

Other Issues

Gaming Devices

The Arizona Tribal-State Gaming Compacts regulate tribal gaming activity of Class III, or casino style, gaming on tribal lands in Arizona. The current Compacts were passed in November 2002 as Proposition 202.

In May 2017, the Compacts were amended as a result of a litigation settlement between the Tohono O'Odham Nation and the State of Arizona. The state agreed to grant a Class III gaming license to the Desert Diamond West Valley Casino in exchange for the Tohono O'Odham Nation's agreement to not build any additional casinos in the metro Phoenix area.

Subsequent to the compact amendments, there are currently 17 tribes operating a total of 25 Class III casinos

Table 2

Class III Gaming Devices Statewide

	<u>FY 2006</u>	<u>FY 2017</u>	<u>Allowed by Compacts</u>
Poker and Blackjack Tables	455	494	3,318 ^{1/}
Slot Machines	<u>12,354</u>	<u>15,284</u>	<u>18,158</u> ^{2/}
Total	12,809	15,778	21,476

^{1/} While the Compacts set the statewide limit at 3,318 betting tables, the Compacts also set a limit of no more than 119 betting tables at any one casino.

^{2/} While the Compacts set the statewide limit at 18,158 slot machines, the Compacts also set a limit of no more than 1,301 slot machines at any one casino.

in Arizona. There are also 5 additional tribes which do not have casinos but have slot machine rights that they may lease to tribes with casinos. *Table 2* displays the maximum number of gaming devices allowed under the Tribal-State Gaming Compacts.

Table 3

Tribal Gaming Distributions Pursuant to Proposition 202 ^{1/}

<u>Recipient</u>	<u>Proposition 202 Formula</u>	<u>FY 2015 Actual ^{1/}</u>	<u>FY 2016 Actual ^{1/}</u>	<u>FY 2017 Projected</u>	<u>FY 2018 Projected</u>
State Government Distribution	88% of total	\$ 88,424,800	\$ 90,752,600	\$ 90,752,600 ^{2/}	\$ 90,752,600 ^{2/}
Local Government Distribution ^{3/}	12% of total	<u>12,057,900</u>	<u>12,375,400</u>	<u>12,375,400</u>	<u>12,375,400</u>
Total	100% of total	\$100,482,700	\$103,128,000	\$103,128,000	\$103,128,000
<u>Allocation of State Government's Share</u>					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,000,000	\$ 8,167,700	\$ 8,167,700 ^{4/}	\$ 8,167,700 ^{4/}
Department of Gaming Problem Gambling	2%	<u>1,768,500</u>	<u>1,815,100</u>	<u>1,815,100</u> ^{5/}	<u>1,815,100</u> ^{5/}
Subtotal-Department of Gaming		\$ 9,768,500	\$ 9,982,800	\$ 9,982,800	\$ 9,982,800
Instructional Improvement Fund (Department of Education)	56% of remainder	44,047,600	45,231,200	45,231,200	45,231,200
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	22,023,800	22,615,500	22,615,500	22,615,500
Arizona Wildlife Conservation Fund	8% of remainder	6,292,500	6,461,600	6,461,600	6,461,600
Tourism Fund	8% of remainder	<u>6,292,500</u>	<u>6,461,600</u>	<u>6,461,600</u>	<u>6,461,600</u>
Total		\$ 88,424,900	\$ 90,752,700	\$ 90,752,700	\$ 90,752,700

^{1/} The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

^{2/} The budget projects flat growth in FY 2017 and FY 2018 for tribal contributions to the Arizona Benefits Fund.

^{3/} Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

^{4/} While the FY 2017 and FY 2018 appropriations include \$9,063,900, A.R.S. § 5-601.02H3 requires 9% of state gaming revenues or \$8,000,000, whichever is greater, to be used for the department's operating budget. This provision is expected to allow the department to expend \$8,167,700 for operating expenditures in FY 2017 and FY 2018, as 9% of projected revenue is greater than \$8,000,000.

^{5/} While the FY 2017 and FY 2018 appropriations 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 \$1,815,100 for problem gambling expenditures in FY 2017 and FY 2018.

Arizona Geological Survey

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.9	0.0	0.0
Personal Services	501,000	0	0
Employee Related Expenditures	170,200	0	0
Professional and Outside Services	3,800	0	0
Travel - In State	13,500	0	0
Other Operating Expenditures	233,600	0	0
Equipment	14,700	0	0
AGENCY TOTAL	936,800	0	0
FUND SOURCES			
General Fund	936,800	0	0
SUBTOTAL - Appropriated Funds	936,800	0	0
Other Non-Appropriated Funds	1,132,800	0	0
Federal Funds	2,349,900	0	0
TOTAL - ALL SOURCES	4,419,500	0	0

AGENCY DESCRIPTION — The Geological Survey investigates Arizona's geology and provides technical advice and assistance to state and local government agencies, industry and other members of the public concerning the geologic environment and the development and use of mineral resources in Arizona. The Survey also provides staffing to the Arizona Oil and Gas Conservation Commission, which regulates the drilling and production of oil, gas and other energy resources. Beginning in FY 2017, the Arizona Geological Survey was transferred to the University of Arizona and the staffing for the Arizona Oil and Gas Conservation Commission was transferred to the Department of Environmental Quality.

Operating Budget

The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transferred most of the statutory responsibilities of the Arizona Geological Survey to the University of Arizona effective July 1, 2016. The Agency Consolidation BRB transferred the administrative and staff support for the Oil and Gas Conservation Commission to the Department of Environmental Quality. No General Fund monies were appropriated to the University of Arizona at the time of the transfer. Laws 2017, Chapter 285 restores funding to the University of Arizona in FY 2018 at the FY 2016 level of funding, \$941,000. (Please see the Mining, Mineral and Natural Resources Educational Museum line item and the Arizona Geological Survey line item in University of Arizona - Main Campus for additional information.)

Office of the Governor

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	7,996,900	6,849,900	6,921,400 ^{1/2/3/}
SPECIAL LINE ITEMS			
Computer Science Initiative	0	0	200,000
Foster Youth Education Success Program	0	0	1,500,000 ^{1/}
School Leadership Training	0	0	250,000
AGENCY TOTAL	7,996,900	6,849,900	8,871,400
FUND SOURCES			
General Fund	7,996,900	6,849,900	8,871,400
SUBTOTAL - Appropriated Funds	7,996,900	6,849,900	8,871,400
Other Non-Appropriated Funds	2,398,600	2,361,400	2,361,400
Federal Funds	13,804,600	21,219,300	21,219,300
TOTAL - ALL SOURCES	24,200,100	30,430,600	32,452,100

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 of Youth, Faith and Family, the Office of Constituent Services, the Arizona-Mexico Commission, as well as others.

Operating Budget

The budget includes \$6,921,400 from the General Fund in FY 2018 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$71,500 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Computer Science Initiative

The budget includes a one-time increase of \$200,000 from the General Fund in FY 2018 for a Computer Science Initiative. The initiative shall develop new academic standards for computer science, including coding, and professional development opportunities for all teachers to help incorporate computer science into their teaching and learning strategies.

Foster Youth Education Success Program

The budget includes a one-time increase of \$1,500,000 from the General Fund in FY 2018 for the Foster Youth Education Success Program. Laws 2016, Chapter 248, establishes the Foster Youth Education Success Program and the Foster Youth Education Success Fund in the Office of the Governor to improve the educational outcomes of children in Arizona's foster care system. Monies in the fund are continuously appropriated and do not revert to the General Fund.

Chapter 248 appropriates \$1,000,000 from the General Fund in FY 2018 to the Office of the Governor for deposit in the Youth Education Success Fund. Chapter 248 also appropriates an additional \$500,000 from the General Fund in FY 2018 to the Office of the Governor for deposit in the Youth Education Success Fund to be spent when matching amounts, of less than \$500,000 from other public monies, gifts, grants and donations, are collected by the Office of the Governor and deposited in the fund. Given the appropriation in Laws 2016, Chapter 248, these monies do not appear in the General Appropriation Act.

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{2/} These funds are appropriated as a Lump Sum.
- ^{3/} Included in the Lump Sum appropriation of \$6,921,400 for FY 2018 is \$10,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)

Monies from public sources other than this state, gifts, grants and donations may be spent by the Office of the Governor as they are collected, but an accounting shall be made by the Office of the Governor to the Joint Legislative Budget Committee to determine qualification for the state match. Both appropriations are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

School Leadership Training

The budget includes a one-time increase of \$250,000 from the General Fund in FY 2018 for School Leadership Training. The Office of the Governor shall allocate the appropriated amount to a public-private partnership to train school leaders in effective management strategies and expand the cadre of training coaches and facilitators.

On or before November 1, 2018, the Office of the Governor shall submit to the President of the Senate and the Speaker of the House of Representatives a report that summarizes the results of school leadership training, including the number of school leaders trained and the amount of matching monies received from nonstate sources. The Office of the Governor shall provide a copy of this report to the Secretary of State.

Governor's Office of Strategic Planning and Budgeting

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	22.0	22.0	22.0
Personal Services	1,266,600	1,330,900	1,330,900
Employee Related Expenditures	438,600	361,500	382,100
Professional and Outside Services	156,500	92,500	92,500
Travel - In State	0	100	100
Travel - Out of State	1,600	0	0
Other Operating Expenditures	229,000	207,200	207,200
Equipment	100	1,800	1,800
AGENCY TOTAL	2,092,400	1,994,000	2,014,600 ^{1/2/}
FUND SOURCES			
General Fund	2,092,400	1,994,000	2,014,600
SUBTOTAL - Appropriated Funds	2,092,400	1,994,000	2,014,600
TOTAL - ALL SOURCES	2,092,400	1,994,000	2,014,600

AGENCY DESCRIPTION — The Governor's Office of Strategic Planning and Budgeting advises the Governor in the preparation of the Executive budget and provides the Executive Branch a central resource for the compilation, analysis, and investigation of state fiscal matters. It facilitates a strategic planning process and assists agencies in preparation and execution of their budgets.

Operating Budget

The budget includes \$2,014,600 and 22 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$20,600 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Health Services

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,176.7	1,065.5	1,065.5 ^{1/}
Personal Services	24,560,600	18,230,700	18,230,700
Employee Related Expenditures	9,916,800	7,729,700	8,190,300
Professional and Outside Services	2,825,300	1,747,000	1,747,000
Travel - In State	414,100	418,800	418,800
Travel - Out of State	50,200	80,200	80,200
Other Operating Expenditures	22,913,500	18,998,200	16,462,400
Equipment	225,700	1,850,500	1,850,500
OPERATING SUBTOTAL	60,906,200	49,055,100	46,979,900
SPECIAL LINE ITEMS			
Arizona State Hospital			
Arizona State Hospital-Operating	57,589,400	60,716,700	61,540,300 ^{2/}
Arizona State Hospital-Restoration to Competency	897,100	900,000	900,000 ^{3/}
Arizona State Hospital-Sexually Violent Persons	9,135,600	9,639,100	9,766,900 ^{4/}
Public Health/Family Health			
Adult Cystic Fibrosis	105,200	105,200	105,200
AIDS Reporting and Surveillance	990,100	1,000,000	1,000,000
Alzheimer's Disease Research	1,125,000	2,125,000	2,125,000 ^{5/}
Biomedical Research Support	1,496,300	2,000,000	2,000,000 ^{6/}
Pediatric Autoimmune Neurological Disorders Research	0	250,000	0
Breast and Cervical Cancer and Bone Density Screening	984,400	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	534,300	590,700	590,700
Emergency Medical Services Local Allocation	399,000	442,000	442,000
Folic Acid Program	387,200	400,000	400,000
High Risk Perinatal Services	1,887,700	2,543,400	2,543,400
Newborn Screening Program	5,608,800	6,697,300	7,242,100
Nursing Care Special Projects	22,000	100,000	100,000
Poison Control Centers Funding	828,200	990,000	990,000
Nonrenal Disease Management	46,400	198,000	198,000 ^{2/}
Renal Dental Care and Nutrition Supplements	225,000	300,000	300,000
Renal Transplant Drugs	0	0	183,000
Public Health Emergencies Fund Deposit	0	0	500,000
State Loan Repayment Program	0	0	1,000,000
Behavioral Health			
Medicaid Behavioral Health - Traditional	890,808,900	0	0
Medicaid Behavioral Health - Proposition 204	564,638,000	0	0
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	185,712,700	0	0
Medicaid Behavioral Health - Adult Expansion Services	70,041,600	0	0
Proposition 204 Administration	8,135,800	0	0
Medicare Clawback Payments	14,228,600	0	0
Medicaid Insurance Premium Payments	34,871,900	0	0
Non-Medicaid Seriously Mentally Ill Services	78,279,400	0	0
Supported Housing	5,207,200	0	0
Crisis Services	16,176,300	0	0
AGENCY TOTAL	2,011,268,300	139,421,900	140,275,900 ^{8/9/}

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
FUND SOURCES			
General Fund	597,791,200	86,553,600	87,669,400
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	8,813,900	9,563,000	6,808,800
ASH Land Earnings Fund	601,500	880,100	970,000
Capital Outlay Stabilization Fund	1,513,900	1,559,900	1,559,900
Child Fatality Review Fund	94,800	94,700	96,900
Disease Control Research Fund	0	250,000	0
Emergency Medical Services Operating Fund	4,810,100	5,357,900	6,248,100
Environmental Laboratory Licensure Revolving Fund	696,000	924,200	930,400
Federal Child Care and Development Fund Block Grant	829,000	872,300	887,900
TTHCF - Health Research Account	2,496,300	4,000,000	4,000,000
Health Services Licensing Fund	8,749,200	9,232,300	9,372,700
DHS Indirect Cost Fund	8,030,600	8,546,100	9,581,300
Newborn Screening Program Fund	6,040,600	7,130,100	7,674,900
Nursing Care Institution Resident Protection Revolving Fund	22,000	138,200	138,200
Substance Abuse Services Fund	2,250,200	0	0
TTHCF - Medically Needy Account	47,966,700	700,000	700,000
Vital Records Electronic Systems Fund	1,112,900	3,619,500	3,637,400
SUBTOTAL - Other Appropriated Funds	94,027,700	52,868,300	52,606,500
SUBTOTAL - Appropriated Funds	691,818,900	139,421,900	140,275,900
<u>Expenditure Authority Funds</u>			
ISA Behavioral Health Services Fund	1,319,449,400	0	0
SUBTOTAL - Expenditure Authority Funds	1,319,449,400	0	0
SUBTOTAL - Appropriated/Expenditure Authority Funds	2,011,268,300	139,421,900	140,275,900
Other Non-Appropriated Funds	123,847,300	74,157,200	74,157,200
Federal Funds	314,815,800	250,195,400	250,195,400
TOTAL - ALL SOURCES	2,449,931,400	463,774,500	464,628,500

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. Beginning January 1, 2018, the responsibilities of the Radiation Regulatory Agency are transferred to the Department of Health Services.

- 1/ Includes 694 GF and 60.1 OF FTE Positions funded from Special Line Items in FY 2018.
- 2/ In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent State Land Funds are appropriated to the Arizona State Hospital in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)
- 3/ The Arizona State Hospital - Restoration to Competency line item includes monies for direct costs associated with the Restoration to Competency program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 4/ The Arizona State Hospital - Sexually Violent Persons line item includes monies for direct costs associated with the Sexually Violent Person program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 5/ Of the \$2,125,000 for Alzheimer's Disease Research, \$2,000,000 is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773. (General Appropriation Act footnote)
- 6/ Laws 2014, Chapter 18, Section 128 appropriated \$2,000,000 annually from the Health Research Fund established by A.R.S. § 36-275 from FY 2015 through FY 2019 to the Department of Health Services for allocation to a nonprofit medical research institute headquartered in this state that meets certain criteria. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Please see the Biomedical Research Support line item for more information.)
- 7/ The Department of Health Services may use up to 4% of the amount appropriated for Nonrenal Disease Management for the administrative costs to implement the program. (General Appropriation Act footnote)

Summary

DHS' FY 2018 General Fund spending increases by \$1,115,800 from FY 2017. The budget includes the following General Fund changes:

- \$183,000 for a new Renal Transplant Drugs line item
- \$(1,900) for elimination of a one-time named claimants appropriation
- \$934,700 for statewide adjustments

Operating Budget

The budget includes \$46,979,900 and 311.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$16,586,300
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	96,900
Emergency Medical Services (EMS) Operating Fund	3,856,100
Environmental Laboratory Licensure Revolving Fund	930,400
Federal Child Care and Development Fund (CCDF) Block Grant	887,900
Health Services Licensing Fund	9,372,700
DHS Indirect Cost Fund	9,581,300
Newborn Screening Program Fund	432,800
Nursing Care Institution Resident Protection Revolving Fund	38,200
Vital Records Electronic Systems Fund	3,637,400

These amounts fund the following adjustments:

Arizona State Hospital Reallocation

The budget includes a decrease of \$(1,800,000) in FY 2018 for reallocation of monies to the Arizona State Hospital.

This amount consists of:

General Fund	(2,800,000)
Indirect Cost Fund	1,000,000

(Please see the Other Issues section for more information on the ASH Fund deficit.)

Transfer State Loan Repayment Program

The budget includes a decrease of \$(650,000) from the EMS Operating Fund in FY 2018 to transfer the State Loan Repayment Program from the operating budget to a new line item. *(Please see the State Loan Repayment Program line item narrative for more information.)*

One-Time Named Claimants Funding

The budget includes a decrease of \$(1,870) from the General Fund in FY 2018 for the elimination of one-time funding for prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Statewide Adjustments

The budget includes an increase of \$376,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	119,000
Child Fatality Review Fund	2,200
Emergency Medical Services (EMS) Operating Fund	40,200
Environmental Laboratory Licensure Revolving Fund	6,200
Federal Child Care and Development Fund (CCDF) Block Grant	15,600
Health Services Licensing Fund	140,400
Indirect Cost Fund	35,200
Vital Records Electronic Systems Fund	17,900

(Please see the Agency Detail and Allocations section.)

Arizona State Hospital

ASH - Operating

The budget includes \$61,540,300 and 616.5 FTE Positions in FY 2018 for the ASH operating budget. These amounts consist of:

General Fund	57,703,900
ASH Fund	2,866,400
ASH Land Earnings Fund	970,000

These amounts fund the following adjustments:

- 8/ The Department of Health Services shall electronically forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Arizona State Hospital Reallocation

The budget includes a decrease of \$(2,800,000) from the ASH Fund and a corresponding increase of \$2,800,000 from the General Fund in FY 2018 for reallocation of monies from the DHS operating budget to the Arizona State Hospital. (Please see the Other Issues section for more information on the ASH Fund deficit.)

One-Time Bed and Light Fixture Purchases

The budget includes an increase of \$320,000 from the ASH Land Earnings Fund in FY 2018 for one-time purchases of new beds and light fixtures to remove ligature points in ASH patient rooms.

Remove One-Time Funding

The budget includes a decrease of \$(230,100) from the ASH Land Earnings Fund in FY 2018 for elimination of one-time purchases of new camera and recording equipment to improve monitoring of patients at ASH.

One-Time Named Claimants Funding

The budget includes a decrease of \$(1,044) from the ASH Fund in FY 2018 for the elimination of one-time funding for prior year unpaid claims.

Statewide Adjustments

The budget includes an increase of \$734,700 from the General Fund in FY 2018 for statewide adjustments.

Background – This line item provides funding for inpatient psychiatric hospitalization services for adult SMI residents. ASH residents that are subject to court-ordered treatment are treated in ASH’s civil hospital and residents charged with, or serving a sentence for committing, a crime are treated in ASH’s forensic hospital. In FY 2016, ASH had an average monthly census of 111 patients in its civil commitment unit, 112 patients in its forensic unit, and 97 Sexually Violent Persons (SVP), for a total of 320 patients.

ASH - Restoration to Competency

The budget includes \$900,000 from the ASH Fund in FY 2018 for ASH - Restoration to Competency. This amount is unchanged from FY 2017.

The FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309) continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH.

Background – ASH provides treatment to restore to competency individuals who are found incompetent to stand trial. Prior to 1997, counties paid 100% of the cost of restoring patients to competency. In FY 1997, the state assumed the full cost of RTC treatment. In FY 2002, the

state began requiring cities and counties to pay 86% of the costs of the program. The state continued to vary the required reimbursement rate over the next several years. Beginning in FY 2010, budget-related session laws have required all counties to pay 100% of the daily cost of care for RTC patients treated at ASH. In FY 2016, there was an average monthly census of 4 RTC patients treated at ASH. RTC patients are treated in ASH’s forensic unit.

ASH - Sexually Violent Persons

The budget includes \$9,766,900 and 112.5 FTE Positions in FY 2018 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,724,500
ASH Fund	3,042,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$127,800 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	81,000
ASH Fund	46,800

Background – After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. In FY 2016, ASH had an average monthly census of 97 Sexually Violent Persons (SVPs).

Since FY 2010, counties that have sent SVPs to ASH are responsible for a portion of the daily cost of care. The FY 2018 Health BRB continues to require counties to pay 31% of their total SVP costs in FY 2018. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings.

Public Health/Family Health

Adult Cystic Fibrosis Care

The budget includes \$105,200 from the General Fund in FY 2018 for Adult Cystic Fibrosis Care. This amount is unchanged from FY 2017.

This line item provides contracted care and treatment services through Phoenix Children’s Hospital for 20 individuals with cystic fibrosis.

AIDS Reporting and Surveillance

The budget includes \$1,000,000 from the General Fund in FY 2018 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2017.

The line item provides \$125,000 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 \$875,000 to provide medications under the Arizona AIDS Drug Assistance Program (ADAP), which also receives Federal Funds for the medications. The ADAP program served approximately 1,986 clients in FY 2016.

Alzheimer's Disease Research

The budget includes \$2,125,000 in FY 2018 for Alzheimer's Disease Research. This amount consists of:

General Fund	125,000
TTHCF - Health Research Account	2,000,000

These amounts fund the following adjustments:

One-Time Continuation

The budget includes a one-time continuation of a \$1,000,000 appropriation from the TTHCF - Health Research Account in FY 2018. The FY 2017 budget increased the appropriation from the TTHCF - Health Research Account by \$1,000,000. The FY 2018 budget continues this increase on a one-time basis.

Background – DHS distributes funding in the line item to the Arizona Alzheimer's Consortium (AAC). The AAC provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer's disease.

The FY 2018 Health BRB continues to permit the department to use TTHCF - Health Research Account monies for Alzheimer's disease research.

Biomedical Research Support

The budget includes \$2,000,000 from the TTHCF - Health Research Account in FY 2018 for Biomedical Research Support. This amount is unchanged from FY 2017.

This line item is funded by Section 128 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). Section 128 appropriates \$2,000,000 annually in FY 2015 through FY 2019 from the TTHCF - Health Research Account. As a result of the Chapter 18 funding, these

monies do not appear in subsequent year General Appropriation Acts.

Background – 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 2016 to the Translational Genomics Research Institute (TGen), a nonprofit medical research institution. 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 2016 appropriation to TGen. (*Please see the NAU narrative for more information.*)

The appropriation from this line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

Pediatric Autoimmune Neurological Disorders Research

The budget includes no funding in FY 2018 for distribution of competitive grants for pediatric autoimmune neurological disorders research. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the Disease Control Research Fund in FY 2018 for elimination of a one-time appropriation for Pediatric Autoimmune Neurological Disorders research.

Pediatric Acute-onset Neuropsychiatric Syndrome (PANS) involves the rapid development of neuropsychiatric symptoms in children, such as Obsessive Compulsive Disorder, anxiety, and difficulty concentrating. In some children, these symptoms could be the result of autoimmune responses to infectious disease. For example, Pediatric Autoimmune Neurological Disorders Associated with Streptococcal Infections (PANDAS) is a specific type of PANS triggered by a strep infection.

In FY 2017, DHS will distribute monies in this line item to the Arizona Biomedical Research Commission. The commission will evaluate research grant applications related to PANS and PANDAS.

Breast and Cervical Cancer and Bone Density Screening

The budget includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2018 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2017.

The Well Woman Healthcheck program provides contracted cancer screenings for women over age 40 who lack health insurance and have incomes less than 250% of the FPL. Women who are diagnosed with breast and cervical cancer through this program are eligible to receive treatment through AHCCCS.

County Tuberculosis Provider Care and Control

The budget includes \$590,700 from the General Fund in FY 2018 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2017.

This line item provides reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs.

Emergency Medical Services Local Allocation

The budget includes \$442,000 from the EMS Operating Fund in FY 2018 for the Emergency Medical Services Local Allocation line item. This amount is unchanged from FY 2017.

This line item provides funding to 4 regional EMS Councils that distribute funding for EMS training and equipment to cities and towns with a population of fewer than 90,000 people.

Folic Acid Program

The budget includes \$400,000 from the TTHCF - Medically Needy Account in FY 2018 for the Folic Acid Program. This amount is unchanged from FY 2017.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth defects. In FY 2016, 33,623 women received folic acid education and multivitamins.

High Risk Perinatal Services

The budget includes \$2,543,400 in FY 2018 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
EMS Operating Fund	450,000

These amounts are unchanged from FY 2017.

This line item provides contracted transport services for high risk expectant mothers and contracted physician follow-up services for uninsured newborns in intensive care centers. It also provides funding for 4 visits per year to families who have babies born at risk of having developmental problems (i.e. speech problems, poor motor skills, delay in walking, etc.). The purpose of the visits is to have children developmentally ready to enter school by age 5.

Newborn Screening Program

The budget includes \$7,242,100 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2018 for the Newborn Screening Program. These amounts fund the following adjustments:

Add SCID to Newborn Screen

The budget includes an increase of \$513,000 from the Newborn Screening Program Fund in FY 2018 to add Severe Combined Immunodeficiency (SCID) to the standard screening for newborns.

Statewide Adjustments

The budget includes an increase of \$31,800 from the Newborn Screening Program Fund in FY 2018 for statewide adjustments.

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 2016, the program provided screening for 83,749 newborns. The program also provides follow-up counseling for the parents of affected newborns. The State Health Laboratory is the designated laboratory for testing, but DHS may designate other laboratories as testing facilities for conditions or tests added to the screening program.

In October 2014, the Newborn Screening Advisory Committee recommended DHS include the screening test for SCID. The department determined that the testing fee for the initial screening would need to be increased 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.

Laws 2017, Chapter 339 allows DHS to raise the cost of the initial screening from \$30 to \$36 to provide the department sufficient funds to add SCID testing.

Nursing Care Special Projects

The budget includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2018 for special projects related to long term care facilities. This amount is unchanged from FY 2017.

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 \$38,200 from this fund for emergency patient relocation and patient personal property replacement. Additional amounts have been appropriated to fund specific projects in past fiscal years, including the recently eliminated nursing facility study.

Poison Control Centers Funding

The budget includes \$990,000 from the General Fund in FY 2018 for Poison Control Centers. This amount is unchanged from FY 2017.

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 2016.

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 \$125,000 to the Poison Control Center in FY 2016.

Nonrenal Disease Management

The budget includes \$198,000 from the General Fund in FY 2018 for Nonrenal Disease Management. This amount is unchanged from FY 2017.

This line item provides funding for medication and other transplant-related services for nonrenal transplant patients who are ineligible for other public assistance programs.

Renal Dental Care and Nutrition Supplements

The budget includes \$300,000 from the TTHCF - Medically Needy Account in FY 2018 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2017.

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, and provides transportation services for dialysis appointments.

Renal Transplant Drugs

The budget includes \$183,000 from the General Fund in FY 2018 for Renal Transplant Drugs. This amount funds the following adjustments:

New Program

The budget includes an increase of \$183,000 from the General Fund in FY 2018 for a new Renal Transplant Drugs line item.

This line item provides funding for anti-rejection medications for renal transplant patients who cannot be listed for transplant because they cannot afford the cost of medications. Approximately 120 people will receive assistance from monies in this line item in FY 2018.

Public Health Emergencies Fund Deposit

The budget includes \$500,000 from the Emergency Medical Services (EMS) Operating Fund in FY 2018 for Public Health Emergencies Fund Deposit. This amount funds the following adjustments:

New Program

The budget includes an increase of \$500,000 from the Emergency Medical Services (EMS) Operating Fund in FY 2018 for a one-time deposit in the Public Health Emergencies Fund.

The Public Health Emergencies Fund was created by the FY 2018 Health BRB. Monies in the fund are non-appropriated and non-lapsing. DHS may only use monies in the fund on a declaration of a public health emergency by the Governor and must submit a report of any expenditures from the fund to the Joint Legislative Budget Committee.

State Loan Repayment Program

The budget includes \$1,000,000 from the Emergency Medical Services (EMS) Operating Fund in FY 2018 for the State Loan Repayment Program. This amount funds the following adjustments:

Transfer State Loan Repayment Program

The budget includes an increase of \$650,000 from the EMS Operating Fund in FY 2018 to transfer the State Loan Repayment Program from the operating budget to a new line item.

Increase in Program Participants

The budget includes an increase of \$350,000 from the EMS Operating Fund in FY 2018 to fund approximately 13 additional program participants.

This line item provides loan repayment for health care providers who agree to practice in medically underserved areas of the state for at least 2 years. In FY 2017, this program funded 38 participants. This program was funded in the DHS operating budget prior to FY 2018.

Behavioral Health

The budget includes no funding in FY 2018 for Medicaid and Non-Medicaid behavioral health service line items. This amount is unchanged from FY 2017. Laws 2015, Chapter 195 transferred behavioral health services to AHCCCS beginning July 1, 2016.

Through FY 2016, these line items funded 4 types of services: 1) Serious Mental Illness (SMI), 2) Children's Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP).

Other Issues

This section includes information on the following topics:

- Non-Restorable Dangerous Defendants
- DHS Building Renovation
- Arizona State Hospital Fund Deficit
- Fund Transfers
- FY 2017 Supplemental
- Additional Legislation
- Proposition 123

Non-Restorable Dangerous Defendants

As session law, the FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) establishes a study committee on incompetent, nonrestorable and dangerous defendants. Such defendants are individuals that have been charged with a crime for which they were found incompetent to stand trial, and after receiving treatment from a restoration to competency program, have been deemed nonrestorable by the court. Under current law, nonrestorable defendants may be remanded to DHS for civil commitment proceedings, appointed a guardian, or released.

The study committee was required to research and offer recommendations related to the treatment and long-term supervision of dangerous and non-restorable defendants. In December 2016, the committee recommended an extension of the study committee, a review of other state's programs dealing with the dangerous and non-restorable defendant population to propose Arizona-specific solutions, developing a systemic approach for counties to track the population, and authorizing the continued function of ASU to serve as the committee's research and coordinating center. Laws 2017, Chapter 103 re-establishes the committee and extends committee functions to include these recommendations.

Laws 2017, Chapter 59 specifies processes for remanding incompetent defendants for Sexually Violent Person screening, outlines notice requirements prior to release of persons from treatment or evaluation, and provides additional processes for evaluation and treatment of incompetent defendants.

DHS Building Renovation

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) requires the Arizona Department of Administration (ADOA) to allocate \$4,200,000 from its building renewal appropriation to renovate the 1740 West Adams building used by the Department of Health Services.

In June 2016, The Joint Committee on Capital Review (JCCR) favorably reviewed \$500,000 of the \$4,200,000 for demolition, abatement, and engineering design. The remaining \$3,700,000 was deferred until ADOA provided the Committee with a tenant relocation plan pursuant to the FY 2017 Capital Outlay Bill. In September 2016, JCCR held the tenant relocation plan, which included both health and non-health boards, and the remaining \$3,700,000 pending discussion on consolidation of the boards during the legislative session. In December 2016, JCCR favorably reviewed the tenant relocation plan.

In April 2017, JCCR favorably reviewed ADOA's plan to reallocate \$791,000 in cost savings from other building renewal projects and \$268,000 from its Contingency Allocation, which is set aside from ADOA's building renewal allocation for unforeseen project expenses, to the 1740 West Adams renovation project to reinforce concrete slabs and structural columns. ADOA expects the tenants of the building to be moved in by January 2018. (Please see ADOA Capital Outlay section for more information.)

Arizona State Hospital Fund Deficit

The ASH Fund has ongoing expenses that are higher than its ongoing revenues. Table 1 below shows ASH Fund revenues and spending from FY 2014 to FY 2018. The fund receives payments from counties for the RTC program and the SVP program, as well as a limited amount of reimbursement from Medicaid and Medicare. Previously, Title XIX allowed DHS to be reimbursed for daily care of patients between 21 and 64 years old for up to 30 days. Changed rules now allow Medicaid reimbursement for up to 15 days, which may impact ASH Fund revenues. Prior to FY 2018 budget changes, DHS projected that ASH Fund disbursements would exceed ASH Fund revenues by \$5.0 million in FY 2017 and \$5.3 million in FY 2018.

To address the FY 2017 shortfall, the FY 2017 budget included a footnote that requires AHCCCS to transfer \$1.2 million from the Non-Medicaid Seriously Mentally Ill (SMI) line item to DHS in FY 2017 to help cover the prescription medication costs of ASH patients. The FY 2018 budget also included a FY 2017 supplemental of \$3.8 million from the Indirect Cost Fund to address the shortfall.

To address to projected FY 2018 shortfall, the FY 2018 budget reallocated \$2.8 million in General Fund monies from the DHS operating budget to the ASH - Operating line item. The budget also transfers \$1.3 million from the Health Services Lottery Monies Fund to the ASH Fund and again transfers \$1.2 million from the AHCCCS Non-Medicaid SMI line item in FY 2018.

Fund Transfers

The budget includes the following FY 2017 transfers from the agency's funds to the General Fund:

ISA for Behavioral Health Services \$35,000,000

The FY 2017 Health BRB (Laws 2016, Chapter 122, Sections 1, 2, and 35) retained the Interagency Service Agreement (ISA) for Behavioral Health Services Fund in DHS until the fund is repealed on September 1, 2020. The

Table 1

ASH Fund Revenues and Expenditures

(\$ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017 ^{1/}	FY 2018 ^{2/}
Beginning Balance	\$ 4.7	\$ 4.5	\$ 0.6	\$ 0.7	\$0.8
Revenue					
SVP	\$ 3.8	\$ 2.8	\$ 3.2	\$ 3.2	\$3.2
RTC	1.6	1.0	0.9	0.9	0.9
Title XIX	1.5	0.9	1.3	0.6	0.6
Non-Medicaid SMI	0.0	1.7	1.5	1.2	1.2
Subtotal	\$ 6.9	\$ 6.4	\$ 6.9	\$ 5.9	\$5.9
Transfers ^{2/}	0.0	0.0	2.4	3.8	1.3
Total Available	\$11.6	\$10.9	\$ 9.9	\$10.4	\$8.0
Spending ^{3/}	9.4	10.3	9.2	9.6	6.8
Ending Balance ^{4/}	\$ 2.2	\$ 0.6	\$ 0.7	\$ 0.8	\$1.2

- ^{1/} FY 2017 and FY 2018 reflect estimated revenues and expenditures.
- ^{2/} The FY 2017 General Appropriation Act transferred \$2.4 million from the Health Services Lottery Monies Fund to the ASH Fund in FY 2016. The FY 2018 General Appropriation Act transferred \$3.8 million from the Indirect Cost Fund in FY 2017 and \$1.3 million from the Health Services Lottery Monies Fund in FY 2018.
- ^{3/} The FY 2018 General Appropriation Act reallocated \$2.8 million in General Fund monies from the DHS operating budget to the ASH - Operating line item in FY 2018. The ASH Fund appropriation had a corresponding decrease of \$(2.8) million.
- ^{4/} According to DHS, the FY 2014 Ending Balance does not match the Beginning Balance in FY 2015 due to transfers of Non-Medicaid SMI monies to the ASH Fund.

bill prohibits DHS from spending the monies in the fund for any purpose except to pay for behavioral health services claims incurred on or before June 30, 2016. As session law, Section 22 allows any unexpended or unencumbered monies in the fund to revert to the General Fund on July 1 of FY 2018, FY 2019, and FY 2020 after any adjustments are approved by AHCCCS and reviewed by JLBC.

Notwithstanding Laws 2016, Chapter 122, the FY 2018 Health BRB transfers \$35,000,000 from the ISA for Behavioral Health Services Fund to the General Fund in FY 2017.

FY 2017 Supplemental

Laws 2017, Chapter 17 provides \$2,914 in FY 2017 for one-time supplemental named claimants appropriations. This amount consists of:

General Fund 1,870
ASH Fund 1,044

Additional Legislation

Health Services Lottery Monies Fund

In addition to previously mentioned items, the FY 2018 Health BRB (Laws 2017, Chapter 309), as session law, notwithstanding A.R.S. § 36-108.01 and § 5-572C to allow monies in the Health Services Lottery Monies Fund to be used for purposes specified in the FY 2018 General Appropriation Act.

Radiation Regulatory Agency Transfer

Laws 2017, Chapter 313 transfers the Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS), effective January 1, 2018. While the FY 2018 General Appropriation Act appropriated a separate budget for the ARRA, Chapter 313 states that all duties and unexpended or unencumbered monies of ARRA are transferred to DHS on the effective date. The *Appropriations Report* budget display does not reflect this transfer.

State Hospital Property Leases

Laws 2017, Chapter 288 allows the DHS Director to lease unused Arizona State Hospital land and buildings to third parties. DHS must report the terms and conditions, purpose, and fiscal impact of all agreements entered into to the Joint Committee on Capital Review for its review. The bill also creates the non-appropriated Arizona State Hospital Charitable Trust Fund for deposit of any monies collected from contracts or lease agreements. Monies in the fund may be used to benefit the mentally ill in the state.

Biomedical Research Commission Repeal

Laws 2017, Chapter 136 repeals the Arizona Biomedical Research Commission (ABRC), and the Advisory Health Council and Prostate Cancer Task Force.

ABRC has 4 initiatives: 1) research grants; 2) research education; 3) biospecimen locator; and 4) public cord blood. Currently, commissioners provide advisory recommendations regarding these initiatives to the DHS Director. DHS plans to use other existing staff members to provide recommendations following the repeal of ABRC, with no planned changes in how the funds used by the commission have been utilized.

Title X Funding Grant Application

The FY 2018 Health BRB requires the Department of Health Services to submit a grant application under Title X of the Public Health Service Act to the U.S. Department of Health and Human Services for monies to provide family planning services. The BRB also requires DHS to emphasize in the application that the state is best suited

to distribute Title X family planning services monies. Any monies received from the grant application would be distributed pursuant to A.R.S. § 35-196.05.

A.R.S. § 35-196.05 requires the state to distribute any family planning services grant monies it receives based on the following order of priority: 1) health care facilities owned or operated by the state; 2) hospitals and federally qualified health centers; 3) rural health clinics; and 4) health care providers whose primary area of practice is primary health services.

Historically, the Arizona Family Health Partnership, a non-state entity, has applied for, received and distributed Title X family planning services monies.

Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona State Hospital receives monies generated from lease revenues and proceeds from the land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

The Arizona State Hospital received a total of \$701,000 in its land trust fund, the ASH Land Earnings Fund, in FY 2015.

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

The JLBC Staff projects that the ASH Land Earnings Fund will have an FY 2017 ending balance of \$839,700. The fund will have estimated revenues of \$876,200 in FY 2018, compared to an appropriation of \$970,000.

(Please see the Land Department narrative for more information.)

Arizona Historical Society

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	51.9	50.9	50.9 ^{1/}
Personal Services	1,187,500	1,221,200	1,221,200
Employee Related Expenditures	487,300	505,500	535,100
Professional and Outside Services	67,300	72,100	72,100
Other Operating Expenditures	376,300	315,300	734,900
OPERATING SUBTOTAL	2,118,400	2,114,100	2,563,300
SPECIAL LINE ITEMS			
Arizona Experience Museum	428,200	0 ^{2/}	0
Field Services and Grants	66,000	66,000	66,300
Papago Park Museum	544,400	542,800	550,200
AGENCY TOTAL	3,157,000	2,722,900	3,179,800 ^{3/}
FUND SOURCES			
General Fund	3,157,000	2,722,900	3,179,800
SUBTOTAL - Appropriated Funds	3,157,000	2,722,900	3,179,800
Other Non-Appropriated Funds	1,264,600	1,171,400	1,136,700
TOTAL - ALL SOURCES	4,421,600	3,894,300	4,316,500

AGENCY DESCRIPTION — The Arizona Historical Society acquires, preserves, maintains, and publicly exhibits archival and museum objects pertaining to the history of Arizona, the West, and the Indian tribes inhabiting the state. The Society's major museums are in Yuma, Flagstaff, Tucson, Phoenix, and Tempe (Papago Park).

Operating Budget

The budget includes \$2,563,300 and 40.4 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$449,200 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Arizona Experience Museum

The budget includes no funding in FY 2018 for the Arizona Experience Museum. This amount is unchanged from FY 2017.

(See the University of Arizona - Main Campus section for more information.)

Field Services and Grants

The budget includes \$66,300 and a 0.4 FTE Position from the General Fund in FY 2018 for Field Services and Grants. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$300 from the General Fund in FY 2018 for statewide adjustments.

This line item funds contracts with certified county historical societies for services to be performed for the benefit of the state.

Papago Park Museum

The budget includes \$550,200 and 10.1 FTE Positions from the General Fund in FY 2018 for the Papago Park Museum. These amounts fund the following adjustments:

^{1/} Includes 10.5 GF FTE Positions funded from Special Line Items in FY 2018.

^{2/} Laws 2016, Chapter 128 transferred \$(428,300) and (1) FTE Position from the General Fund in FY 2017 to the University of Arizona to re-open the former Mining and Mineral Museum.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes an increase of \$7,400 from the General Fund in FY 2018 for statewide adjustments.

This line item funds the operation and maintenance of the Papago Park Museum (Tempe).

Other Issues

Table 1

FY 2016 Museum Attendance

<u>Facility</u>	<u>Visitors</u>
Arizona History (Tucson)	11,226
Downtown History (Tucson)	3,269
Fort Lowell (Tucson)	4,248
Sosa Carrillo Fremont (Tucson)	2,384
Sanguinetti House (Yuma)	2,820
Museum at Papago Park (Tempe)	3,602
Pioneer Museum (Flagstaff)	13,527
Riordan Mansion (Flagstaff)	<u>22,000</u>
Total	63,076

Prescott Historical Society of Arizona

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	489,800	507,800	507,800
Employee Related Expenditures	232,500	241,100	256,800
Professional and Outside Services	1,000	20,000	20,000
Other Operating Expenditures	102,500	55,600	55,600
AGENCY TOTAL	825,800	824,500	840,200 ^{1/}
FUND SOURCES			
General Fund	825,800	824,500	840,200
SUBTOTAL - Appropriated Funds	825,800	824,500	840,200
Other Non-Appropriated Funds	605,100	829,800	829,800
TOTAL - ALL SOURCES	1,430,900	1,654,300	1,670,000

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 budget includes \$840,200 and 13 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$15,700 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Arizona Department of Homeland Security

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 ESTIMATE
FUND SOURCES			
Federal Funds	23,484,300	30,561,100	30,561,100
TOTAL - ALL SOURCES	23,484,300	30,561,100	30,561,100

AGENCY DESCRIPTION — The Arizona Department of Homeland Security distributes funding received from the U.S. Department of Homeland Security to state agencies and local governments to prevent and mitigate acts of terrorism and natural disasters. The department publishes the Arizona Homeland Security Strategy and provides planning assistance to aid in the development of regional response plans for natural disasters or terrorism incidents.

Board of Homeopathic and Integrated Medicine Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	34,300	47,500	34,700
Employee Related Expenditures	20,600	27,900	26,700
Professional and Outside Services	1,000	1,800	1,800
Travel - In State	1,400	2,400	2,400
Other Operating Expenditures	17,000	23,400	23,400
AGENCY TOTAL	74,300	103,000	89,000 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	74,300	103,000	89,000
SUBTOTAL - Other Appropriated Funds	74,300	103,000	89,000
SUBTOTAL - Appropriated Funds	74,300	103,000	89,000
TOTAL - ALL SOURCES	74,300	103,000	89,000

AGENCY DESCRIPTION — The board licenses and regulates medical physicians who practice homeopathic and integrated medicine, a system of medical treatment based on the use of small quantities of remedies which in larger doses produce symptoms of the disease. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$89,000 and 1 FTE Position from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Reduce Appropriation

The budget includes a decrease of \$(15,700) from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2018 to make revenue more closely match expenditures. The agency has requested this change.

Statewide Adjustments

The budget includes an increase of \$1,700 from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Arizona Department of Housing

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	20.0	20.0
Personal Services	173,700	702,500	702,500
Employee Related Expenditures	72,500	273,900	297,200
Professional and Outside Services	5,000	14,700	14,700
Travel - In State	8,000	41,200	41,200
Travel - Out of State	1,700	0	0
Other Operating Expenditures	46,300	90,900	90,900
Equipment	11,200	6,700	6,700
AGENCY TOTAL	318,400	1,129,900	1,153,200 ^{1/}
FUND SOURCES			
General Fund	0	811,400	830,000
<u>Other Appropriated Funds</u>			
Housing Trust Fund	318,400	318,500	323,200
SUBTOTAL - Other Appropriated Funds	318,400	318,500	323,200
SUBTOTAL - Appropriated Funds	318,400	1,129,900	1,153,200
Other Non-Appropriated Funds	21,203,800	16,652,500	22,981,800
Federal Funds	76,317,800	81,748,400	87,806,800
TOTAL - ALL SOURCES	97,840,000	99,530,800	111,941,800

AGENCY DESCRIPTION — Through a variety of housing and community improvement programs, the department annually administers approximately \$97 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. Beginning in FY 2017, the responsibilities of the Office of Manufactured Housing are transferred from the Department of Fire, Building and Life Safety to the Department of Housing.

Operating Budget

The budget includes \$1,153,200 and 20 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$830,000
Housing Trust Fund	323,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$23,300 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	18,600
Housing Trust Fund	4,700

(Please see the Agency Detail and Allocations section.)

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

Independent Redistricting Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	1,094,000	1,115,300	0
AGENCY TOTAL	1,094,000	1,115,300	0
FUND SOURCES			
General Fund	1,094,000	1,115,300	0
SUBTOTAL - Appropriated Funds	1,094,000	1,115,300	0
TOTAL - ALL SOURCES	1,094,000	1,115,300	0

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 cannot be affiliated with either of the 2 major political parties. The commission is charged with redrawing the boundaries for Arizona’s legislative and congressional districts based on the 10-year census.

Operating Budget

The budget includes no funding from the General Fund in FY 2018 for the operating budget. This amount funds the following adjustments:

2010 Redistricting Cycle Litigation Completion

The budget includes a decrease of \$(1,115,300) from the General Fund in FY 2018 for the elimination of funding for the commission, whose final outstanding case for the current redistricting cycle, *Leach v. Independent Redistricting Commission*, has concluded. The commission will resume its constitutional duties in CY 2021, the start of the next 10-year redistricting cycle.

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

Table 1

CY 2010 Redistricting Cycle Appropriations

Fiscal Year	Appropriation
FY 2011 (Laws 2010, 7 th SS, Ch. 1)	\$ 500,000
FY 2012 (Laws 2011, Ch. 24)	3,000,000
FY 2012 (Laws 2012, Ch. 108)	700,000
FY 2013 (Laws 2012, Ch. 294)	1,457,300
FY 2013 (Laws 2013, Ch. 2)	500,000
FY 2013 (Laws 2013, Ch. 158)	635,226
FY 2014 (Laws 2013, 1 st SS, Ch. 1)	1,115,100
FY 2014 (Laws 2014, Ch. 3)	1,462,701
FY 2015 (Laws 2014, Ch. 18)	1,115,300
FY 2016 (Laws 2015, Ch. 8)	1,115,300
FY 2017 (Laws 2016, Ch. 117)	1,115,300
Total	\$12,716,227

from the General Fund and Laws 2013, Chapter 158 appropriated \$635,226 from the General Fund in FY 2013.

Laws 2013, 1st Special Session, Chapter 1 appropriated \$1,115,100 from the General Fund for the commission in FY 2014. Laws 2014, Chapter 3 appropriated a supplemental of \$1,462,701 from the General Fund in FY 2014 for continued operations and legal expenses and made these funds available through FY 2015. Laws 2014, Chapter 18 appropriated \$1,115,300 from the General Fund in FY 2015. Laws 2015, Chapter 8 further extended the availability of the FY 2014 supplemental (made by Laws 2014, Chapter 3) through FY 2016. Chapter 8 also appropriated \$1,115,300 in FY 2016.

After reverting unused funds from the FY 2015 appropriation at the end of FY 2015, IRC had \$1,161,200 of prior appropriation authority available for use. Those

funds, along with the FY 2016 appropriation of \$1,115,300, resulted in total FY 2016 resources of \$2,276,500. Use of the FY 2016 resources was not continued into FY 2017 and the unused portion reverted to the General Fund on July 1, 2016. Laws 2016, Chapter 117 appropriated \$1,115,300 from the General Fund.

The FY 2018 budget included no funding for the commission.

These appropriations resulted in total funding for the current redistricting cycle of \$12,716,227 (see Table 1).

Litigation Status

The commission's final outstanding case (*Leach v. Independent Redistricting Commission*) was resolved in FY 2017. A second case was resolved in FY 2016 (*Harris v. Independent Redistricting Commission*). Those 2 cases are as follows:

1. *Leach v. Independent Redistricting Commission* – Various individuals sued IRC in state court alleging IRC did not follow the process laid out in the Arizona Constitution for drawing the Congressional districts. Several motions were filed in Superior Court and the individual commissioners were dismissed as defendants. The case was put on hold pending the resolution of *Arizona Legislature v. Independent Redistricting Commission*, which was resolved by the Supreme Court in June 2015 (see the *Independent Redistricting Commission narrative in the FY 2016 Appropriations Report for more information on that case*). The Superior Court heard summary judgment motions for *Leach v. IRC* on February 10, 2017, and granted the commission summary judgement on all claims in March 2017. The plaintiffs did not file an appeal, therefore, the summary judgement in favor of the commission represents the final ruling of the case.
2. *Harris v. Independent Redistricting Commission* – Various individuals sued the IRC in federal district court stating that the population counts of the state's legislative districts are the result of unconstitutional partisan bias. A 3-judge U.S. Court of Appeals panel found in favor of the commission in April 2014. The plaintiffs appealed the case to the U.S. Supreme Court in June 2014. The U.S. Supreme Court heard the case on December 8, 2015 and affirmed in April 2016 the U.S. Court of Appeals ruling, stating that the IRC's methods did not violate the one-person, one-vote principle when drawing the district maps.

Industrial Commission of Arizona

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	235.6	235.6	235.6
Personal Services	9,169,800	9,851,600	9,851,600
Employee Related Expenditures	3,678,500	3,985,600	4,214,700
Professional and Outside Services	1,999,000	2,109,900	2,109,900
Travel - In State	178,000	153,700	153,700
Travel - Out of State	46,200	53,700	53,700
Other Operating Expenditures	3,669,000	3,714,300	3,714,300
Equipment	239,100	12,500	12,500
OPERATING SUBTOTAL	18,979,600	19,881,300	20,110,400
SPECIAL LINE ITEMS			
OSHA Review Board	2,500	0	0
AGENCY TOTAL	18,982,100	19,881,300	20,110,400 ^{1/}
FUND SOURCES			
General Fund	2,500	0	0
<u>Other Appropriated Funds</u>			
Administrative Fund	18,979,600	19,881,300	20,110,400
SUBTOTAL - Other Appropriated Funds	18,979,600	19,881,300	20,110,400
SUBTOTAL - Appropriated Funds	18,982,100	19,881,300	20,110,400
Other Non-Appropriated Funds	17,081,200	17,806,800	17,806,800
Federal Funds	2,935,800	3,160,300	3,160,300
TOTAL - ALL SOURCES	38,999,100	40,848,400	41,077,500

AGENCY DESCRIPTION — The Industrial Commission regulates the workers' compensation insurance industry. The commission is also responsible for child labor issues, occupational safety and health issues, wage claim dispute resolutions, licensing of private employment agencies and providing workers' compensation coverage for claimants of uninsured and self-insured employers. Payment of workers' compensation claims on insolvent insurers was transferred from the Special Fund to the Workers' Compensation Insurance Account of the Arizona Property and Casualty Insurance Guaranty Fund within the Department of Insurance effective July 1, 2015.

Operating Budget

The budget includes \$20,110,400 and 235.6 FTE Positions from the Administrative Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$229,100 from the Administrative Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Claims Processing System Upgrade

The budget includes a FY 2018 transfer of \$1,017,400 from the Administration Fund for a workers' compensation claims processing system upgrade. (Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)

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

OSHA Review Board Appropriation

In FY 2012 the Occupational Safety and Health Review Board received a one-time non-lapsing General Fund appropriation of \$15,000. The board uses the monies for outside legal services related to the administration of the board's activities. The FY 2017 Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transferred the appropriation to the Industrial Commission of Arizona effective July 1, 2016. At the end of FY 2016, \$8,300 was available for the Industrial Commission to expend on the OSHA Review Board.

Department of Insurance

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	95.5	72.3	72.3
Personal Services	2,855,000	3,475,100	3,464,400
Employee Related Expenditures	1,150,200	1,340,200	1,408,000
Professional and Outside Services	248,900	314,000	313,000
Travel - In State	24,700	21,300	21,200
Travel - Out of State	2,600	1,100	1,100
Other Operating Expenditures	720,600	666,200	664,200
Equipment	75,200	6,400	6,400
AGENCY TOTAL	5,077,200	5,824,300	5,878,300 ^{1/}
FUND SOURCES			
General Fund	5,077,200	5,824,300	5,878,300
SUBTOTAL - Appropriated Funds	5,077,200	5,824,300	5,878,300
Other Non-Appropriated Funds	19,198,900	19,569,000	27,564,600
Federal Funds	333,800	836,000	166,100
TOTAL - ALL SOURCES	24,609,900	26,229,300	33,609,000

AGENCY DESCRIPTION — The Department of Insurance licenses and authorizes the transaction of insurance business by insurers, producers, and other insurance-related entities. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation.

Operating Budget

The budget includes \$5,878,300 and 72.3 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$54,000 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Statutory Fee Revenue Requirement Suspension

The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) continues to suspend the statutory requirement that fee revenues be between 95% and 110% of the department's appropriation for FY 2018.

Captive Insurance Regulatory and Supervision Fund

Laws 2017, Chapter 281 changes the year-end fund transfer from the Captive Insurance Regulatory and Supervision Fund to the General Fund from amounts exceeding \$100,000 in the fund balance to amounts exceeding \$200,000. This change under Chapter 281 has the effect of reducing General Fund revenues by \$(100,000) annually, beginning in FY 2018.

Arizona Life and Disability Insurance Guaranty Fund

The Arizona Life and Disability Insurance Guaranty Fund (ALDIGF) is managed by the Department of Insurance and a 9-member Life and Disability Insurance Guaranty Fund Board (Board) and was created as a safeguard to meet the obligations of a licensed insurance company in the event that a licensed insurer fails. Monies in the fund come from an assessment levied on all other licensed insurers. In the event that one or more insurers are determined to be financially impaired or insolvent and can no longer meet its obligations to policyholders, monies in the ALDIGF are used to pay those obligations up to a certain maximum payout amount, determined by statute based on the type of insurance. The last assessment levied for

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

these purposes in the ALDIGF was in FY 1997. Monies in the ALDIGF are not appropriated by the Legislature.

Due to the failure of 2 national insurance companies with business in Arizona, the Department of Insurance and the board intend to levy an assessment to replenish the fund and could accomplish that objective with one of several methods. The state could levy large assessments up front or smaller assessments over many years to match the annual fund payouts. The department and the board plan to levy an assessment over multiple years. The department estimates these assessments will total \$5,000,000 in CY 2018 and \$14,000,000 in CY 2019.

Similar assessments will continue over many years, likely decreasing over time, to match the annual fund payouts. While the exact amount of the total assessments is not yet known, the department estimates that total assessments will likely exceed \$150 million through CY 2051. The policies in Arizona affected by the insolvent insurers are primarily long-term care policies – the maximum payout from the ALDIGF for long-term care policies is capped by statute at \$300,000.

The maximum assessment amount that can be levied on a single insurer in any one year is capped at 2% of the insurer's average total premiums of similar insurance lines covered by the ALDIGF in the previous 3 years. Statute also allows insurers to offset their Insurance Premium Tax (IPT) payments by 20% in the year of the assessment, and by 20% in each of the succeeding 4 years. As a result, this would have the effect of reducing IPT collections, which are deposited into the General Fund.

Judiciary - Supreme Court

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.0	177.0	183.0 ^{1/}
Personal Services	5,811,400	6,093,500	6,423,000
Employee Related Expenditures	2,085,300	2,315,600	2,631,500
Professional and Outside Services	153,900	778,600	778,600
Travel - In State	132,600	132,700	132,700
Travel - Out of State	34,900	38,100	38,100
Other Operating Expenditures	3,512,900	4,056,900	3,986,300
Equipment	43,600	0	0
OPERATING SUBTOTAL	11,774,600	13,415,400	13,990,200 ^{2/}
SPECIAL LINE ITEMS			
State Aid	4,484,200	5,648,500	5,671,400
County Reimbursements	187,900	187,900	187,900 ^{3/}
Automation	16,511,400	19,977,700	20,063,600 ^{4/5/}
WAAS Upgrade	0	948,700	0
State Foster Care Review Board	3,205,100	3,178,500	3,205,000
Court Appointed Special Advocate	2,600,900	2,862,900	3,267,800
Model Court	434,600	437,600	439,500
Domestic Relations	610,400	613,400	625,600
Judicial Nominations and Performance Review	412,400	409,100	416,300
Commission on Judicial Conduct	504,900	498,600	508,500
Courthouse Security	0	0	750,000 ^{6/}
Felony Pretrial Intervention Program	0	250,000	0
AGENCY TOTAL	40,726,400	48,428,300	49,125,800 ^{7/}
FUND SOURCES			
General Fund	17,875,100	19,219,500	18,812,000
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	294,200	488,900	493,600
Court Appointed Special Advocate Fund	2,681,200	2,943,200	3,348,500
Criminal Justice Enhancement Fund	3,457,700	4,365,200	4,399,600
Defensive Driving School Fund	3,193,400	4,198,500	4,205,900
Health Services Lottery Monies Fund	0	250,000	0
Judicial Collection Enhancement Fund	10,825,000	14,017,900	14,784,100
Legislative, Executive, and Judicial Public Buildings Land Fund	0	0	137,000
State Aid to the Courts Fund	2,399,800	2,945,100	2,945,100
SUBTOTAL - Other Appropriated Funds	22,851,300	29,208,800	30,313,800
SUBTOTAL - Appropriated Funds	40,726,400	48,428,300	49,125,800
Other Non-Appropriated Funds	18,073,400	21,599,200	21,599,200
TOTAL - ALL SOURCES	58,799,800	70,027,500	70,725,000

AGENCY DESCRIPTION — The Supreme Court consists of 7 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.

^{1/} Includes 52.5 GF and 21.8 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} Included in the operating lump sum appropriation for the Supreme Court is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote)

Operating Budget

The budget includes \$13,990,200 and 108.7 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$10,017,700
Confidential Intermediary and Fiduciary Fund	493,600
Criminal Justice Enhancement Fund (CJEF)	7,000
Defensive Driving School Fund	708,000
Judicial Collection Enhancement Fund (JCEF)	2,626,900
Legislative, Executive, and Judicial Public Buildings Land Fund	137,000

These amounts fund the following adjustments:

Judicial Salary Increase

The budget includes an increase of \$20,300 from the General Fund in FY 2018 for the second year of a 2-year phase-in of a 3% judicial pay increase. The FY 2017 budget included \$10,600 in funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase is January 1, 2017. The budget includes the funding for the continuation of the first 1.5% increase from FY 2017 as well as half-year funding for the second 1.5% increase which becomes effective January 1, 2018. The funding for the January 1, 2018 increase will be annualized in FY 2019.

Additional Justices

The budget includes an increase of \$425,400 and 6 FTE Positions from the General Fund in FY 2018 for the completed phase-in of full-year funding for 2 additional Supreme Court justices and 6 associated support staff. Laws 2016, Chapter 333 expands the number of Supreme Court justices from 5 to 7. At least 3 candidates for each of these positions were selected by the Commission on Appellate Court Appointments and provided to the Governor for approval. The term for each justice began on January 2, 2017.

Risk Management Adjustment

The budget includes a one-time decrease of \$(33,600) in FY 2018 for risk management adjustments. This amount consists of:

General Fund	(170,600)
Legislative, Executive, and Judicial Public Buildings Land Fund	137,000

Across the entire Supreme Court, the General Fund reduction is \$(198,100) when adjusting for other line items.

The FY 2018 General Appropriation Act included a one-time appropriation of \$137,000 from the Legislative, Executive, and Judicial Public Buildings Land Fund to offset a portion of the one-time \$(170,600) General Fund reduction to the Supreme Court's operating budget. The other line items do not include a Land Fund offset.

In the FY 2019 budget, the Supreme Court's risk management payment will be adjusted to the appropriate level. *(Please see the Other Issues section for more information.)*

Statewide Adjustments

The budget includes an increase of \$162,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	154,000
Confidential Intermediary and Fiduciary Fund	4,700
Defensive Driving School Fund	1,800
JCEF	2,200

(Please see the Agency Detail and Allocations section.)

State Aid

The budget includes \$5,671,400 and 3.3 FTE Positions in FY 2018 for State Aid. These amounts consist of:

CJEF	2,726,300
State Aid to the Courts Fund	2,945,100

- 3/ Of the \$187,900 appropriated for County Reimbursements, State Grand Jury is limited to \$97,900 and Capital Postconviction Relief is limited to \$90,000. (General Appropriation Act footnote)
- 4/ On or before September 1, 2017, 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 one summary document. The report shall indicate each project's total multiyear cost by fund source and budget line item, including any prior-year, current-year and future-year expenditures. (General Appropriation Act footnote)
- 5/ Automation expenses of the Judiciary shall be funded only from the Automation line item. Monies in the operating lump sum appropriation or other line items intended for automation purposes shall be transferred to the Automation line item before expenditure. (General Appropriation Act footnote)
- 6/ Laws 2017, Chapter 303 appropriated \$750,000 from the Judicial Collection Enhancement Fund in FY 2018 for courthouse security.
- 7/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$22,900 from CJEF in FY 2018 for statewide adjustments.

The State Aid line item provides state aid to counties for the payment of judges pro tempore salaries, and for projects designed to improve the processing of criminal cases in the Superior Court and Justice Courts. The State Aid to the Courts Fund receives: 1) 40.97% of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and 2) a portion of the monies collected by the Supreme Court and the Court of Appeals.

The AOC distributes the monies appropriated from court fines and collections to the Superior Court and the Justice Courts based on a composite index formula using Superior Court felony filings and county population. Monies appropriated from the State Aid to the Courts Fund in the State Aid line item are distributed to all counties.

County Reimbursements

The budget includes \$187,900 from the General Fund in FY 2018 for County Reimbursements. This amount is unchanged from FY 2017.

The County Reimbursements line item provides reimbursement to counties for grand jury expenses and for state-funded representation of indigent defendants in first-time capital postconviction relief proceedings. Statute limits reimbursements to counties for grand jury expenses and state-funded representation of indigent defendants in first-time capital postconviction relief proceedings to the amount appropriated for those purposes.

Automation

The budget includes \$20,063,600 and 13 FTE Positions in FY 2018 for Automation. These amounts consist of:

General Fund	3,411,500
Court Appointed Special Advocate (CASA) Fund	80,700
CJEF	1,666,300
Defensive Driving School Fund	3,497,900
JCEF	11,407,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$85,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	54,400
Court Appointed Special Advocate (CASA) Fund	400
CJEF	11,500
Defensive Driving School Fund	5,600
JCEF	14,000

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. Automation costs are to be solely funded from the Automation line item. As required by a General Appropriation Act footnote, any additional monies expended from other line items for automation projects are to be transferred to the Automation line item prior to expenditure.

WAAS Upgrade

The budget includes no funding in FY 2018 for an upgrade to the Wide Area Application Services (WAAS) equipment within the Courts. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(948,700) from the General Fund in FY 2018 for the elimination of one-time funding for an upgrade to WAAS equipment within the Courts.

In 2009, the Supreme Court purchased WAAS equipment to enhance the data transmission capacity and data speed across the Arizona Judicial Information Network (AJIN). AJIN allows various state agencies to receive information from the courts that is necessary for their operations such as driver's license revocations, child support decisions, and other court case information. This one-time funding will allow the Courts to replace all existing WAAS equipment with updated hardware and software.

State Foster Care Review Board

The budget includes \$3,205,000 and 40 FTE Positions from the General Fund in FY 2018 for the State Foster Care Review Board. These amounts fund the following adjustments:

Risk Management Adjustment

The budget includes a one-time decrease of \$(26,700) from the General Fund in FY 2018 for risk management adjustments.

Statewide Adjustments

The budget includes an increase of \$53,200 from the General Fund in FY 2018 for statewide adjustments.

The State Foster Care Review Board line item coordinates local volunteer review boards for foster care children in out-of-home placement.

Court Appointed Special Advocate

The budget includes \$3,267,800 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2018 for CASA. These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$400,000 from the CASA Fund in FY 2018 to expand the program. These monies will help to train individuals that volunteer to serve as CASAs and will provide for other educational and administrative expenditures that the Administrative Office of the Courts incurs in overseeing the CASA program.

Statewide Adjustments

The budget includes an increase of \$4,900 from the CASA Fund in FY 2018 for statewide adjustments.

The CASA line item administers and monitors a community-based volunteer advocacy program for abused and neglected children in the Juvenile Court System. In FY 2016, 1,290 individuals volunteered for this program.

Model Court

The budget includes \$439,500 from the General Fund in FY 2018 for Model Court. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,900 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item represent a pass-through to counties to improve processing of dependency cases. The Superior Court budget includes an additional, one-time appropriation of \$3,000,000 in General Fund monies in FY 2017 to fund operating expenses associated with a surge in dependency cases. *(Please see the Dependency Surge line item in the Superior Court budget for more information.)*

Domestic Relations

The budget includes \$625,600 and 4.9 FTE Positions from the General Fund in FY 2018 for Domestic Relations. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$12,200 from the General Fund in FY 2018 for statewide adjustments.

The Domestic Relations line item provides coordination and technical support for groups formed to develop and review policies and programs related to domestic relations and child support.

Judicial Nominations and Performance Review

The budget includes \$416,300 and 3.6 FTE Positions from the General Fund in FY 2018 for Judicial Nominations and Performance Review. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,200 from the General Fund in FY 2018 for statewide adjustments.

This line item funds administrative costs to oversee the nominations for the Supreme Court, the Court of Appeals, and the Superior Court in Maricopa, Pima, and Pinal Counties, as well as evaluating the performance of all merit retention justices and judges. The results of the performance evaluations are provided to the voters before each retention election.

Commission on Judicial Conduct

The budget includes \$508,500 and 4 FTE Positions from the General Fund in FY 2018 for Commission on Judicial Conduct. These amounts fund the following adjustments:

Risk Management Adjustment

The budget includes a one-time decrease of \$(800) from the General Fund in FY 2018 for risk management adjustments.

Statewide Adjustments

The budget includes an increase of \$10,700 from the General Fund in FY 2018 for statewide adjustments.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

Courthouse Security

The FY 2018 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 303) appropriates \$750,000 from JCEF in FY 2018 for Courthouse Security. The monies will be used for training, assistance, and grants to courts to meet the minimum standards of courthouse security as adopted by the Arizona Supreme Court.

The FY 2018 Criminal Justice BRB modifies statute to allow an increased amount of Superior Court and Justice of the Peace fees to be deposited into JCEF. The Administrative Office of the Courts has indicated that it intends to raise Superior Court and Justice of the Peace fees by 2% which would then be deposited into JCEF under the provisions in this bill. If this were to occur, all other recipients of Superior Court and Justice of the Peace fee revenues would be held harmless.

Felony Pretrial Intervention Program

The budget includes no funding in FY 2018 for the Felony Pretrial Intervention Program line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the Health Services Lottery Monies Fund in FY 2018 for the elimination of one-time funding for a Felony Pretrial Intervention program.

The monies in this line item are intended for distribution to the Maricopa County Attorney’s Office. The Maricopa County Attorney’s Office currently administers a program that allows individuals who are charged with felonies to avoid prosecution by successfully completing a treatment program tailored to their individual needs.

Laws 2017, Chapter 286 appropriates \$2,750,000 in FY 2018 to the Arizona Criminal Justice Commission for felony pretrial intervention programs in non-Maricopa counties. The monies are to be granted to county attorneys for felony pretrial intervention programs that provide substance abuse treatment, cognitive behavioral therapy, and case management services for non-dangerous, non-repeat offenders. *(Please see the Arizona Criminal Justice Commission narrative for more information.)*

Other Issues

Fund Transfers

The budget modifies the FY 2018 Judiciary fund transfers included in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) by reducing the aggregate amount of the transfer by \$(400,000) from the CASA Fund. As a result, the budget includes \$2,600,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2018.

The Supreme Court share of these fund transfers would be \$500,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	200,000

The Superior Court share of these fund transfers would be \$2,100,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	1,850,000

These aggregate fund transfers represent a decrease of \$(2,400,000) from the FY 2017 transfer amount of \$5,000,000.

Risk Management Reduction

In FY 2017 the Judiciary paid a total of \$1,695,100 for risk management charges. This amount was spread across the 3 courts of the Judiciary as displayed in *Table 1*.

**Table 1
FY 2017 Risk Management Fund Sourcing**

<u>Court and Fund Source</u>	<u>Expenditures</u>
Supreme Court	
General Fund	\$ 61,100
Other Fund	<u>125,000</u>
Total	\$ 186,100
Court of Appeals	
General Fund	\$ 27,800
Superior Court	
General Fund	\$ 50,800
Other Fund	21,500
County Funding	<u>1,408,900^{1/}</u>
Total	\$1,481,200

^{1/} This amount represents the statutorily-required county payment for probation risk management charges.

As part of their FY 2018 budget, the Executive proposed reducing the 3 agencies' FY 2017 non-probation General Fund charge by \$(276,700) as outlined below.

Supreme Court	\$(198,100)
Court of Appeals	(27,800)
Superior Court	(50,800)

However, the FY 2017 Judiciary General Fund charge only totaled \$139,700. As a result, the budget took the one-time \$(276,700) reduction and restored \$137,000 from the Legislative, Executive and Judicial Public Buildings Land Fund to leave a net change of \$(139,000). In FY 2019, the fund sourcing and amounts will be adjusted to the appropriate level.

Judiciary - Court of Appeals

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
PROGRAM BUDGET			
Division I	9,964,800	9,963,900	10,258,000
Division II	4,326,700	4,316,500	4,465,000
AGENCY TOTAL	14,291,500	14,280,400	14,723,000
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	136.8	136.8	136.8 ^{1/}
Personal Services	9,666,100	9,898,200	9,943,800
Employee Related Expenditures	3,302,400	3,332,800	3,521,600
Professional and Outside Services	95,300	5,000	5,000
Travel - In State	195,100	189,500	189,500
Travel - Out of State	16,900	15,000	15,000
Other Operating Expenditures	1,015,700	839,900	1,048,100
AGENCY TOTAL	14,291,500	14,280,400	14,723,000 ^{2/}
FUND SOURCES			
General Fund	14,291,500	14,280,400	14,723,000
SUBTOTAL - Appropriated Funds	14,291,500	14,280,400	14,723,000
TOTAL - ALL SOURCES	14,291,500	14,280,400	14,723,000

AGENCY DESCRIPTION — The Court of Appeals has jurisdiction in all proceedings appealable from the Superior Court except criminal death penalty cases, which are automatically appealed to the Supreme Court. Division I also has statewide responsibility for reviewing appeals from the Arizona Corporation Commission, Industrial Commission, the Department of Economic Security unemployment compensation rulings, and the Arizona Tax Court. Division I convenes in Phoenix and encompasses the counties of Apache, Coconino, La Paz, Maricopa, Mohave, Navajo, Yavapai, and Yuma. Division II convenes in Tucson and encompasses the counties of Cochise, Gila, Graham, Greenlee, Pima, Pinal, and Santa Cruz.

Operating Budget

The budget includes \$14,723,000 and 136.8 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts include \$10,258,000 and 98.3 FTE Positions for Division I and \$4,465,000 and 38.5 FTE Positions for Division II. These amounts fund the following adjustments:

Judicial Salary Increase

The budget includes an increase of \$61,700 from the General Fund in FY 2018 for the second year of a 2-year phase-in of a 3% judicial pay increase. The FY 2017 budget included \$31,900 in funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase is January 1, 2017. The Baseline includes the funding for the continuation of the first 1.5% increase from FY 2017 as well as half-year funding for the second 1.5% increase which becomes

effective January 1, 2018. The FY 2018 increase is split with Division I receiving \$43,200 and Division II receiving \$18,500. The funding for the January 1, 2018 increase will be annualized in FY 2019.

Additional Division I Staff

The budget includes an increase of \$148,800 from the General Fund in FY 2018 for the cost of hiring a staff attorney and deputy clerk position. These positions would help to process appeals cases from the juvenile and family courts in Division I counties. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Additional Division II Staff

The budget includes an increase of \$87,200 from the General Fund in FY 2018 for the hiring of a finance manager in Division II. A July 2016 report from the

^{1/} Of the 136.8 FTE Positions for FY 2018, 98.3 FTE Positions are for Division I and 38.5 FTE Positions are for Division II. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum by Subprogram.

Auditor General found that cash receipt responsibilities were not adequately separated across Division II employees. As a result, the Auditor General recommended that the employee who handles cash receipts be separate from the employee who records the receipts in the Arizona Financial Information System (AFIS) and that an employee without access to cash receipts perform reconciliations between AFIS and the Court's accounting system. This funding would allow Division II to hire a replacement for the previous finance manager who handled a portion of these duties prior to their retirement in January 2016. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Risk Management Adjustment

The budget includes a one-time decrease of \$(27,800) from the General Fund in FY 2018 for risk management adjustments. *(Please see the Supreme Court narrative for more information.)*

Statewide Adjustments

The budget includes an increase of \$172,700 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Judiciary - Superior Court

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5 ^{1/}
Personal Services	2,304,800	2,237,800	2,237,800
Employee Related Expenditures	863,500	889,500	889,500
Professional and Outside Services	44,100	48,900	48,900
Travel - In State	51,400	44,800	44,800
Travel - Out of State	18,700	11,100	11,100
Other Operating Expenditures	952,500	980,300	961,700
OPERATING SUBTOTAL	4,235,000	4,212,400	4,193,800 ^{2/}
SPECIAL LINE ITEMS			
Centralized Service Payments	2,955,800	3,458,000	3,458,000 ^{3/}
Judges Compensation	8,104,900	8,288,500	8,367,300 ^{4/}
Adult Standard Probation	15,781,100	16,864,200	17,666,600 ^{5/}
Adult Intensive Probation	10,197,700	10,366,900	10,565,100 ^{5/}
Community Punishment	1,407,900	2,310,300	2,310,300
Interstate Compact	467,200	427,500	427,500 ^{5/}
Drug Court	993,600	993,600	993,600
Drug Treatment Alternative to Prison	0	0	250,000 ^{6/}
Juvenile Standard Probation	3,355,500	3,850,600	3,610,400 ^{5/}
Juvenile Intensive Probation	5,272,300	5,612,400	5,352,000 ^{5/}
Juvenile Treatment Services	19,937,800	19,960,900	19,960,900 ^{7/}
Juvenile Family Counseling	490,800	500,000	500,000
Juvenile Diversion Consequences	8,039,300	8,157,800	8,157,800 ^{7/}
Juvenile Crime Reduction	1,560,300	3,308,000	3,308,000
Dependency Surge	0	3,000,000	0
Special Water Master	111,300	160,000	190,700
Court-Ordered Removals	0	0	75,000
AGENCY TOTAL	82,910,500	91,471,100	89,387,000 ^{8/9/10/11/}
FUND SOURCES			
General Fund	73,634,200	79,517,800	77,183,700
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	2,811,900	5,435,200	5,435,200
Drug Treatment and Education Fund	500,200	502,900	502,900
Health Services Lottery Monies Fund	0	0	250,000
Judicial Collection Enhancement Fund	5,964,200	6,015,200	6,015,200
SUBTOTAL - Other Appropriated Funds	9,276,300	11,953,300	12,203,300
SUBTOTAL - Appropriated Funds	82,910,500	91,471,100	89,387,000
Other Non-Appropriated Funds	6,160,400	3,829,200	3,829,200
Federal Funds	0	1,057,900	1,057,900
TOTAL - ALL SOURCES	89,070,900	96,358,200	94,274,100

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.

^{1/} Of the 137.5 FTE Positions, 82 FTE Positions represent Superior Court judges in counties with a population of less than 2,000,000 persons. One-half of those judges' salaries are provided by state General Fund appropriations pursuant to A.R.S. § 12-128. This FTE Position clarification does not limit the counties' ability to add judges pursuant to A.R.S. § 12-121. (General Appropriation Act footnote)

Operating Budget

The budget includes \$4,193,800 and 55.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$3,860,800
Criminal Justice Enhancement Fund (CJEF)	317,100
Drug Treatment and Education Fund	2,700
Judicial Collection Enhancement Fund (JCEF)	13,200

These amounts fund the following adjustments:

Risk Management Adjustment

The budget includes a one-time decrease of \$(18,600) from the General Fund in FY 2018 for risk management adjustments. Across the entire Superior Court, the General Fund reduction is \$(50,800) when adjusting for other line items. *(Please see the Supreme Court narrative for more information.)*

Background – These monies represent the administrative costs incurred by the Administrative Office of the Courts (AOC) while overseeing the various line items of the Superior Court budget. In prior years, these monies were included in the individual line items. In order to increase the clarity of expenditure sourcing, these monies have been shifted to a centralized operating budget leaving the monies passed through to the county Superior Courts in their respective line items.

Centralized Service Payments

The budget includes \$3,458,000 in FY 2018 for centralized service payments. This amount consists of:

General Fund	3,008,100
JCEF	449,900

These amounts are unchanged from FY 2017.

Background – In order to facilitate payment for services that are offered by all Superior Courts, AOC pays for

- 2/ All expenditures made by the Administrative Office of the Courts for the administration of Superior Court line items shall be funded only from the Superior Court operating budget. Monies in Superior Court line items intended for this purpose shall be transferred to the Superior Court operating budget before expenditure. (General Appropriation Act footnote)
- 3/ All centralized service payments made by the Administrative Office of the Courts on behalf of counties shall be funded only from the Centralized Service Payments line item. Centralized service payments include only training, motor vehicle payments, CORP review board funding, LEARN funding, research, operational reviews and GPS vendor payments. This footnote does not apply to treatment or counseling services payments made from the Juvenile Treatment Services and Juvenile Diversion Consequences line items. Monies in the operating lump sum appropriation or other line items intended for centralized service payments shall be transferred to the Centralized Service Payments line item before expenditure. (General Appropriation Act footnote)
- 4/ All monies in the Judges' Compensation line item shall be used to pay for the 50% state share of Superior Court judges' salaries, Elected Officials' Retirement Plan costs and related state benefit costs for judges in counties with a population of less than 2 million persons. Monies in the operating lump sum appropriation or other line items intended for this purpose shall be transferred to the Judges' Compensation line item before expenditure. (General Appropriation Act footnote)
- 5/ All monies in the Adult Standard Probation, Adult Intensive Probation, Interstate Compact, Juvenile Standard Probation and Juvenile Intensive Probation line items shall be used only as pass-through monies to county probation departments. Monies in the operating lump sum appropriation or other line items intended as pass-through for the purpose of administering a county probation program shall be transferred to the appropriate probation line item before expenditure. (General Appropriation Act footnote)
- 6/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to non-lapsing of appropriations, through June 30, 2019.
- 7/ Monies appropriated to Juvenile Treatment Services and Juvenile Diversion Consequences shall be deposited in the Juvenile Probation Services Fund established by A.R.S. § 8-322. (General Appropriation Act footnote)
- 8/ Receipt of state probation monies by the counties is contingent on the county maintenance of FY 2004 expenditure levels for each probation program. State probation monies are not intended to supplant county dollars for probation programs. (General Appropriation Act Footnote)
- 9/ On or before November 1, 2017, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee the FY 2017 actual, FY 2018 estimated and FY 2019 requested amounts for each of the following:
 1. On a county-by-county basis, the number of authorized and filled case carrying probation positions and non-case carrying positions, distinguishing between Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive. The report shall indicate the level of state probation funding, other state funding, county funding and probation surcharge funding, for those positions.
 2. Total receipts and expenditures by county and fund source for the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items, including the amount of Personal Services expended from each revenue source of each account.
 3. The amount of monies from the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items that the office does not distribute as direct aid to counties. The report shall delineate how the office spends these monies that are not distributed as direct aid to counties. (General Appropriation Act footnote)
- 10/ On or before February 1, 2018, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee on county-approved salary adjustments provided to probation officers since the last report on September 30, 2016. The report shall include, for each county, the:
 1. Approved percentage salary increase by year.
 2. Net increase in the amount allocated to each probation department by the Administrative Office of the Courts for each applicable year.
 3. Average number of probation officers by applicable year.
 4. Average salary of probation officers for each applicable year. (General Appropriation Act footnote)
- 11/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

various services centrally. These services include training, motor vehicle payments, Corrections Officer Retirement Plan Review Board funding, Literacy Education and Resource Network program funding (an online G.E.D. preparation program), research, operational reviews and GPS vendor payments.

Judges' Compensation

The budget includes \$8,367,300 and 82 FTE Positions from the General Fund in FY 2018 for Judges' Compensation. These amounts fund the following adjustments:

Judicial Salary Increase

The budget includes an increase of \$111,000 from the General Fund in FY 2018 for the second year of a 2-year phase-in of a 3% judicial pay increase. The FY 2017 budget included \$57,500 in funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase is January 1, 2017. The budget includes the funding for the continuation of the first 1.5% increase from FY 2017 as well as half-year funding for the second 1.5% increase which becomes effective January 1, 2018. The funding for the January 1, 2018 increase will be annualized in FY 2019.

Risk Management Adjustment

The budget includes a one-time decrease of \$(32,200) from the General Fund in FY 2018 for risk management adjustments.

Background – This line item provides funding for the state's 50% share of the salary and Elected Officials Retirement Plan costs for Superior Court Judges. The line item also funds 100% of the costs of Superior Court Judges that elect state benefits, although some opt to participate in county programs. In the latter circumstance, the county pays 100% of the cost.

A.R.S. § 12-128 requires the state General Fund to pay for one-half of Superior Court Judges' salaries, except for Maricopa County judges. Maricopa County is responsible for 100% of the salary and benefits of its Superior Court Judges. Pursuant to A.R.S. § 12-121, each county receives one judge for the first 30,000 of population. Additional judges may be created for every additional 30,000 person increment upon approval by the Governor.

Probation Programs

The state and non-Maricopa Counties share the costs of probation. For the intensive programs, the state pays 100% of the costs (although the counties may provide offices and other support services). Counties typically

contribute through Probation Service Fee collections, outside grants, and office space. Since FY 2004, Maricopa County has assumed the state's share of its probation costs. *(Please see the Other Issues section for more information on probation funding.)*

Adult Standard Probation

The budget includes \$17,666,600 in FY 2018 for Adult Standard Probation. This amount consists of:

General Fund	13,892,500
JCEF	3,774,100

These amounts fund the following adjustments:

Salary Realignment

The budget includes an increase of \$302,400 from the General Fund in FY 2018 for a shift of resources from the Juvenile Standard Probation and Juvenile Intensive Probation line item for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. Outside of the budget process, the Superior Court transferred \$302,400 in existing FY 2017 General Fund monies from the Juvenile Standard and Juvenile Intensive Probation line items to the Adult Standard Probation line item to fund a portion of the increased salary costs.

The FY 2018 increase of \$302,400 will make the FY 2017 funding shift permanent. The \$302,400 includes the transfer of \$240,200 from the Juvenile Standard Probation and \$62,200 from the Juvenile Intensive Probation line items. There will be no net change to Superior Court funding.

Adult Standard Probation Growth

The budget includes an increase of \$500,000 from the General Fund in FY 2018 for additional Adult Standard Probation officers. These monies will fund 9 new probation officers which will be able to supervise an additional 585 probationers at the statutorily required supervision cap of 65 probationers to every probation officer. The 9 new probation officer positions are county positions and do not count towards the Superior Court's FTE ceiling.

Background – This line item provides funding for community supervision services for adults placed on standard probation by the Adult Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 12-251A, an adult

probation officer shall not supervise more than 65 adults on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Adult Intensive Probation

The budget includes \$10,565,100 in FY 2018 for Adult Intensive Probation. This amount consists of:

General Fund	9,029,900
JCEF	1,535,200

This amount funds the following adjustments:

Salary Realignment

The budget includes an increase of \$198,200 from the General Fund in FY 2018 for a shift of resources from the Juvenile Intensive Probation line item for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. Outside of the budget process, the Superior Court transferred \$198,200 in existing FY 2017 General Fund monies from the Juvenile Intensive Probation line item to the Adult Intensive Probation line item to fund a portion of the increased salary costs.

The FY 2018 increase of \$198,200 will make the FY 2017 funding shift permanent. The \$198,200 was transferred from the Juvenile Intensive Probation line item. There will be no net change to Superior Court funding.

Background – This line item provides funding for a sentencing alternative intended to divert serious, non-violent offenders from prison. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 13-916, 1 team shall not supervise more than 25 intensive probationers at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Community Punishment

The budget includes \$2,310,300 in FY 2018 for Community Punishment. This amount consists of:

CJEF	1,810,100
Drug Treatment and Education Fund	500,200

These amounts are unchanged from FY 2017.

Background – This line item provides behavioral treatment services for adult probationers and for enhanced supervision, such as electronic monitoring and specialized probation caseloads. The funding is intended to provide for diversion of offenders from prison and jail, as well as to enhance probation programs, excluding Maricopa County.

The monies in the Community Punishment line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Interstate Compact

The budget includes \$427,500 in FY 2018 for Interstate Compact. This amount consists of:

General Fund	334,700
JCEF	92,800

These amounts are unchanged from FY 2017.

Background – This line item provides funding for supervision and intervention to probationers transferring to Arizona and monitors the supervision of probationers transferred to other states from Arizona.

As required by a General Appropriation Act footnote, the monies in the Interstate Compact line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Drug Court

The budget includes \$993,600 from the General Fund in FY 2018 for Drug Court programs. This amount is unchanged from FY 2017.

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.

Drug Treatment Alternative to Prison

The budget includes \$250,000 from the Health Services Lottery Monies Fund in FY 2018 for the Pima County Drug Treatment Alternative to Prison Program. This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$250,000 from the Health Services Lottery Monies Fund in FY 2018 for a one-time appropriation to provide additional funding to the Pima County Drug Treatment Alternative to Prison Program. The program allows drug addicted criminals that plead guilty to receive residential therapeutic treatment as an alternative to prison. This appropriation is non-lapsing through June 30, 2019.

The FY 2015 budget included \$250,000 from the General Fund for the same program. These monies were non-lapsing and were expended by the end of FY 2016.

Juvenile Standard Probation

The budget includes \$3,610,400 in FY 2018 for Juvenile Standard Probation. This amount consists of:

General Fund	3,460,400
JCEF	150,000

These amounts fund the following adjustments:

Salary Realignment

The budget includes a decrease of \$(240,200) from the General Fund in FY 2018 for a shift of resources to the Adult Standard and Adult Intensive Probation line items for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. Outside of the budget process, the Superior Court transferred \$(240,200) in existing General Fund monies from the Juvenile Standard Probation line item to the Adult Standard Probation line item to fund a portion of the increased salary costs.

The FY 2018 decrease of \$(240,200) will make the FY 2017 funding shift permanent. The \$(240,200) will be transferred to the Adult Standard Probation line item. There will be no net change to Superior Court funding.

Background – This line item provides funding for community supervision services for juveniles placed on standard probation by the Juvenile Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-203B, a

juvenile probation officer shall not supervise more than an average of 35 juveniles on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Intensive Probation

The budget includes \$5,352,000 from the General Fund in FY 2018 for Juvenile Intensive Probation. This amount funds the following adjustments:

Salary Realignment

The budget includes a decrease of \$(260,400) from the General Fund in FY 2018 for a shift of resources to the Adult Standard and Adult Intensive Probation line items for prior-year probation officer salary increases. The FY 2017 budget included an increase of \$601,200 from the General Fund for the funding of prior year adult probation officer salary increases. Outside of the budget process, the Superior Court transferred \$(260,400) in existing General Fund monies from the Juvenile Intensive Probation line item to the Adult Probation line items to fund a portion of the increased salary costs.

The FY 2018 decrease of \$(260,400) will make the FY 2017 funding shift permanent. The \$(260,400) includes the transfer of \$62,200 to the Adult Standard Probation line item and \$198,200 to the Adult Intensive Probation line item. There will be no net change to Superior Court funding.

Background – This line item provides funding for a sentencing alternative to divert serious, non-violent juvenile offenders from incarceration or residential care and to provide intensive supervision for high-risk offenders already on probation. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-353B, 1 JIPS team shall not supervise more than an average of 25 juveniles on intensive probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Treatment Services

The budget includes \$19,960,900 from the General Fund in FY 2018 for Juvenile Treatment Services. This amount is unchanged from FY 2017.

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. Juvenile probation treatment service costs are to be solely funded from the Juvenile Treatment Services line item. Any additional monies expended from other line items for juvenile probation treatment services will first be transferred to the Juvenile Treatment Services line item.

As required by a General Appropriation Act footnote, the monies in the Juvenile Treatment Services line item shall be used only as pass-through monies to the counties for their treatment programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Family Counseling

The budget includes \$500,000 from the General Fund in FY 2018 for Juvenile Family Counseling. This amount is unchanged from FY 2017.

Background – This line item provides funding to the Juvenile Division of the Superior Court for prevention of delinquency among juvenile offenders by strengthening family relationships. These monies are predominantly for non-adjudicated juveniles and their families and require a 25% county match.

Juvenile Diversion Consequences

The budget includes \$8,157,800 from the General Fund in FY 2018 for Juvenile Diversion Consequences. This amount is unchanged from FY 2017.

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 2016, there were approximately 13,376 juveniles diverted from formal court proceedings. Monies in this line item are distributed to all counties.

As required by a General Appropriation Act footnote, the monies in the Juvenile Diversion Consequences line item shall be used only as pass-through monies to the counties for their diversion programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Crime Reduction

The budget includes \$3,308,000 from CJEF in FY 2018 for Juvenile Crime Reduction. This amount is unchanged from FY 2017.

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 25 public and private entities.

As required by a General Appropriation Act footnote, the monies in the Juvenile Crime Reduction line item shall be used only as pass-through monies to the counties for their crime reduction programs and are not available for AOC expenses.

Dependency Surge Funding

The budget includes no funding in FY 2018 for Superior Court processing of dependency cases. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for the processing of dependency cases. The FY 2017 appropriation is exempt from lapsing through June 30, 2018.

The Supreme Court budget also continues to include \$439,500 in General Fund monies in FY 2018 for the improved processing of dependency cases in the Model Court line item. *(Please see the Model Court line item in the Supreme Court narrative for more information.)*

Monies in this line item represent a pass-through to county Superior Courts to assist with the processing of dependency cases.

Special Water Master

The budget includes \$190,700 from the General Fund in FY 2018 for the Special Water Master line item. This amount funds the following adjustments:

Full-Time Funding

The budget includes an increase of \$30,700 from the General Fund in FY 2018 to provide funding for a full-time Special Water Master. Laws 2015, Chapter 276 shifted \$60,000 in Special Water Master funding in FY 2016 to the Automation line item in the Supreme Court budget to help offset a \$(3,590,500) General Fund reduction to the line. As a result, the Special Water Master was reduced from a full-time to a part-time position. This funding would allow the Special Water Master to return to a full-time position.

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 2016, 519 water rights claims were filed by individuals, communities, governments, and companies. The Special Water Master conducts hearings for each claimant and makes recommendations to a Superior Court judge.

Pursuant to statute, the costs of the Water Master are funded from claimant fees. If claimant fees are insufficient, statute requires the state General Fund to pay for these expenses in a line item within the Superior Court budget. *(Please see the Other Issues section for more information.)*

Court-Ordered Removals

The budget includes \$75,000 from the General Fund in FY 2018 for Court-Ordered Removals. This amount funds the following adjustments:

Processing of Custody Orders

The budget includes an increase of \$75,000 from the General Fund in FY 2018 for the process of custody orders. Previously, children could be declared temporary wards of the state by the Juvenile Court after being taken into custody by a child safety worker, peace officer, or an interested person. Laws 2017, Chapter 282 modified statute to allow the Superior Court rather than the Juvenile Court to issue orders for temporary custody and allows the Superior Court to issue orders of temporary custody without first receiving a petition from an interested person, peace officer, or child safety worker. The changes will become effective on July 1, 2019.

These monies will help fund the costs associated with the Superior Court's processing and issuance of temporary orders of custody for juveniles removed from their home.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan associated with the enacted FY 2018 budget, Court-Ordered Removal funding is assumed to increase by \$275,000 in FY 2019.

Fund Transfers

The budget modifies the FY 2018 Judiciary fund transfers included in the FY 2017 General Appropriation Act by reducing the aggregate amount of the transfer by \$(400,000) from the CASA Fund. As a result, the budget includes \$2,600,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2018. The Superior Court share of these fund transfers would be \$2,100,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	1,850,000

The Supreme Court share of these fund transfers would be \$500,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	200,000

These aggregate fund transfers represent a decrease of \$(2,400,000) from the FY 2017 transfer amount of \$5,000,000.

Probation Caseloads

The budget includes \$32,069,500 in General Fund and \$5,552,100 in Other Fund monies in FY 2018 to support non-Maricopa County adult and juvenile probation caseloads.

In FY 2016, the state appropriated \$29,162,200 in General Fund and \$5,552,100 in Other Fund monies for a total of \$34,714,300 in state resources to support non-Maricopa County adult and juvenile probation caseloads. Actual probation expenditures totaled \$35,073,800 in FY 2016 due to the Administrative Office of the Courts transferring monies from other lines. Additionally, counties provided \$27,267,500 in funding and \$6,370,600 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 2016.

In FY 2016 the average non-Maricopa County probation caseload was 18,523. This represents a year-over-year increase of 2.6%. 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 2014 - FY 2018 by probation category. The FY 2017 and FY 2018 figures represent estimated caseloads derived from the utilization of a multi-year trend line using 18 years of data. The estimated aggregate growth rate for FY 2018 is 0.3% for all probation categories due to estimated decreases in all but the Adult Standard category which is anticipated to increase by 1.8% in FY 2018.

Special Water Master

In FY 2016, revenue and interest to the Gila River water rights adjudication, including a \$145,000 General Fund appropriation, totaled \$152,395 and expenditures were \$94,575 leaving an ending balance of \$181,476. The revenue consists of filing fees paid by claimants initiating water rights claims, interest, and monies appropriated by

the Legislature. The FY 2016 budget included a decrease of \$(54,500), or \$145,500 total, due to Laws 2015, Chapter 276 which reduced the Special Water Master appropriation to help backfill a reduction to the Supreme Court's Automation line item. The FY 2018 budget includes an increase of \$27,900 to restore the Special Water Master to a full-time position for a total allocation of \$173,400.

The FY 2016 revenue, interest and appropriations to the Little Colorado River water rights adjudication totaled \$16,681 and expenditures were \$16,690. The FY 2016 ending balance was \$90,893. 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. The FY 2018 budget increased this amount by \$2,800, or \$17,300 total, to allow the Special Water Master to become a full-time position. *Table 3* displays a history of the revenues and expenditures to the Gila River and Little Colorado River Water Masters from FY 2014 through FY 2018.

Table 1

FY 2016 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	207.0	101.5	51.4	45.3	405.2
Non-Case Carrying Positions	324.6	53.6	366.8	27.1	772.1
Total Filled Positions	531.6	155.1	418.2	72.4	1,177.3
Probation Line Item Expenditures					
Amount Distributed to Counties	<u>\$16,248,300</u>	<u>\$10,197,700</u>	<u>\$3,355,500</u>	<u>\$5,272,300</u>	<u>\$35,073,800</u>
Total Line Item Expenditures	\$16,248,300^{1/}	\$10,197,700	\$3,355,500	\$5,272,300	\$35,073,800^{2/}
County Probation Expenditures					
State General Fund	\$11,899,200 ^{1/}	\$8,583,500	\$3,169,500	\$4,760,300	\$28,412,500
Other State Funds	3,882,900	1,527,500	0	0	5,410,400
County Funding	14,433,800	0	12,833,700	0	27,267,500
Probation Fees	<u>5,902,100</u>	<u>0</u>	<u>468,500</u>	<u>0</u>	<u>6,370,600</u>
Total Expenditures	\$36,118,000	\$10,111,000	\$16,471,700	\$4,760,300	\$67,461,000^{3/}

1/ Includes the Adult Standard Probation and Interstate Compact 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

	FY 2014 <u>Actual</u>	FY 2015 <u>Actual</u>	FY 2016 <u>Actual</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>
Probation Category					
Adult Standard ^{1/}	13,727	14,556	15,306	15,500	15,773
Adult Intensive	1,363	1,320	1,273	1,253	1,232
Juvenile Standard	1,738	1,717	1,494	1,385	1,228
Juvenile Intensive	<u>511</u>	<u>460</u>	<u>450</u>	<u>400</u>	<u>354</u>
Total Caseload	17,339	18,053	18,523	18,538	18,587

^{1/} Does not include Interstate Compact participants. In FY 2016 there was an average of 236 individuals in Pima and Yavapai Counties that were funded from the Interstate Compact line item.

Table 3

Special Water Master Funding

	FY 2014 <u>Actual</u>	FY 2015 <u>Actual</u>	FY 2016 <u>Actual</u>	FY 2017 <u>Estimated^{1/}</u>	FY 2018 <u>Estimated^{1/}</u>
Gila River					
Beginning Balance	\$97,342	\$23,411	\$123,656	\$181,476	\$197,871
Revenues ^{2/}	86,233	211,844	152,395	152,395	180,295
Expenditures	<u>160,164</u>	<u>111,599</u>	<u>94,575</u>	<u>136,000</u>	<u>162,350</u>
Ending Balance	\$23,411	\$123,656	\$181,476	\$197,871	\$215,816
Little Colorado River					
Beginning Balance	\$94,185	\$86,761	\$90,902	\$90,893	\$83,574
Revenues ^{2/}	21,489	23,835	16,681	16,681	21,135
Expenditures	<u>28,913</u>	<u>19,964</u>	<u>16,690</u>	<u>24,000</u>	<u>28,650</u>
Ending Balance	\$86,761	\$90,902	\$90,893	\$83,574	\$76,059

^{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, however, this amount was increased to \$173,400 in FY 2018 as part of the FY 2018 budget. 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, however, the FY 2018 budget increased this amount to \$17,300 in FY 2018.

Department of Juvenile Corrections

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	22,907,700	20,299,900	17,616,100
Employee Related Expenditures	12,947,000	9,598,300	10,189,900
Professional and Outside Services	997,200	979,400	979,400
Travel - In State	125,700	119,900	119,900
Travel - Out of State	10,000	9,500	9,500
Other Operating Expenditures	3,526,400	7,686,700	6,423,600
Equipment	908,500	866,500	866,500
AGENCY TOTAL	41,422,500	39,560,200	36,204,900 ^{1/2/}
FUND SOURCES			
General Fund	25,356,000	24,180,400	19,549,800
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	493,500	531,500	531,300
Department of Juvenile Corrections Local Cost Sharing Fund	12,000,000	11,260,000	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,972,900	2,000,100	3,272,600
State Education Fund for Committed Youth	1,600,100	1,588,200	1,591,200
SUBTOTAL - Other Appropriated Funds	16,066,500	15,379,800	16,655,100
SUBTOTAL - Appropriated Funds	41,422,500	39,560,200	36,204,900
Other Non-Appropriated Funds	114,300	99,700	99,700
Federal Funds	1,226,900	1,224,600	1,224,600
TOTAL - ALL SOURCES	42,763,700	40,884,500	37,529,200

AGENCY DESCRIPTION — The Department of Juvenile Corrections (DJC) is responsible for the care and treatment of youth offenders adjudicated to be delinquent and remanded to the custody of the department. DJC has jurisdiction over youth until they are released from custody or reach age 18.

Operating Budget

The budget includes \$36,204,900 and 738.5 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$19,549,800
Criminal Justice Enhancement Fund (CJEF)	531,300
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	3,272,600
State Education Fund for Committed Youth	1,591,200

These amounts fund the following adjustments:

Admission Changes

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2018 for reductions in the committed youth population within DJC. (Please see the *Other Issues* section for more information on DJC populations.)

CORP Fund Adjustment

The budget includes a \$1,011,200 increase from the State Charitable, Penal and Reformatory Institutions Land Fund for an increase in the Corrections Officer Retirement Plan employer contribution rate. In FY 2018 the DJC employer contribution rate will rise from 24.86% to 31.03%. (Please see the *Consolidated Retirement Report* for more information.)

^{1/} Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the Department of Juvenile Corrections, in compliance with Section 25 of the Enabling Act and the Constitution of Arizona, to be used for the support of state juvenile institutions and reformatories. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Technical Adjustment

The budget includes a decrease of \$(200) in FY 2018 from CJEF due to incorrect fund sourcing in Section 55 of the General Appropriation Act (Laws 2017, Chapter 305).

Statewide Adjustments

The budget includes an increase of \$633,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	369,400
State Charitable, Penal and Reformatory Institutions Land Fund	261,300
State Education Fund for Committed Youth	3,000

(Please see the Agency Detail and Allocations section.)

Other Issues

Local Cost Sharing

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2018 Criminal Justice BRB (Laws 2017, Chapter 303) sets the total contribution by counties at \$11,260,000, the same level in FY 2017. *Table 1* displays the estimated payment by county:

Table 1	
Allocation of Local Cost Sharing	
<u>County</u>	<u>FY 2018</u>
Apache County	\$ 126,000
Cochise County	231,400
Coconino County	236,800
Gila County	94,400
Graham County	65,600
Greenlee County	14,800
La Paz County	36,100
Maricopa County	6,724,100
Mohave County	352,600
Navajo County	189,300
Pima County	1,726,800
Pinal County	661,900
Santa Cruz County	83,500
Yavapai County	371,800
Yuma County	344,900
TOTAL	\$11,260,000

The FY 2018 General Appropriation Act continues a one-time \$8,000,000 General Fund appropriation to the Department of Administration for distribution to counties according to their proportional share of the population as reported by the 2010 decennial census. This amount is meant to offset a portion of the costs paid by counties to

DJC for local cost sharing. *Table 2* displays the distribution by county. The FY 2017 budget also included the \$8,000,000 offset. *(Please see the County Funding narrative for more information on state distributions to counties.)*

Table 2	
Allocation of County Payment	
<u>County</u>	<u>FY 2018</u>
Apache County	\$ 89,500
Cochise County	164,400
Coconino County	168,300
Gila County	67,100
Graham County	46,600
Greenlee County	10,500
La Paz County	25,700
Maricopa County	4,777,300
Mohave County	250,500
Navajo County	134,500
Pima County	1,226,900
Pinal County	470,300
Santa Cruz County	59,300
Yavapai County	264,100
Yuma County	245,000
TOTAL	\$8,000,000

Proposition 123

As a beneficiary of the Arizona State Land Trust, DJC receives monies generated from lease revenues and the proceeds from land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

The Department of Juvenile Corrections received a total of \$1,452,500 in its land trust fund, the State Charitable, Penal and Reformatory Institutions Land Fund, in FY 2015.

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

The JLBC Staff projects that the State Charitable, Penal and Reformatory Institutions Land Fund will have an FY 2017 ending balance of \$2,639,200. The fund will have estimated revenues of \$2,862,200 in FY 2018, compared to an FY 2018 appropriation of \$3,272,600.

(Please see the Land Department narrative for more information.)

Population Counts

Table 3 lists the DJC population by category. The housed and parole populations within DJC have seen significant decreases in the past 10 years. As illustrated in *Table 3*,

the housed population within DJC has decreased from 351 to 167, or (52.4)% from FY 2014 through April 2017. The total parole population has also decreased significantly, realizing a reduction of (34.5)% over the same period. DJC reports that this decline is due to a reduction in the number of committed youth, an increase in the age of the average offender resulting in shorter incarceration periods, and statutory changes to admissions requirements.

As a result of this decline, the budget included a decrease of \$(5,000,000) from the General Fund in FY 2018. These savings were calculated by developing an estimated FY 2018 average housed population based on the average decline in juveniles over the past 3 fiscal years. The most recent actual average cost per housed juvenile (FY 2016) was then applied to the most recent actual housed population and the estimated average FY 2018 housed population to derive cost savings estimates. The

difference was the \$(5,000,000) reduction included in the budget.

The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) altered the requirements for admission to DJC facilities. These changes include an increase in the minimum admission age to 14, the requirement that juveniles who are admitted must have committed a felony in the past, and the allowance for those that are adjudicated as seriously mentally ill to be allowed admission if they have only committed a misdemeanor. Prior to this bill, the minimum age for admission was 8 years and individuals who had committed a misdemeanor were allowed entrance.

Table 3

DJC Census				
	FY 2014 Average Population	FY 2015 Average Population	FY 2016 Average Population	Population as of April 30, 2017
Housed Population				
Adobe Mountain	351	321	227	167
Parole Population				
Parole	135	127	81	56
Interstate Compact (Inside Arizona) ^{1/}	<u>120</u>	<u>114</u>	<u>111</u>	<u>111</u>
Total Parole Population	<u>255</u>	<u>241</u>	<u>192</u>	<u>167</u>
Total DJC Population	606	562	419	334
^{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 was an average of 1 Arizona parolee outside of Arizona in FY 2016 and 1 parolee on April 30, 2017.				

State Land Department

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.7	129.7	129.7
Personal Services	6,283,600	7,191,200	7,191,200
Employee Related Expenditures	2,449,100	2,955,300	3,101,600
Professional and Outside Services	987,400	1,543,400 ^{1/}	1,373,400
Travel - In State	82,300	100,000	100,000
Travel - Out of State	10,200	20,000	20,000
Other Operating Expenditures	2,795,900	3,328,700	2,835,300
Equipment	117,600	180,000	180,000
OPERATING SUBTOTAL	12,726,100	15,318,600	14,801,500
SPECIAL LINE ITEMS			
CAP User Fees	737,700	994,400	994,400 ^{2/}
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	539,400	650,000	650,000 ^{3/}
Professional Service Contracts	0	0	250,000
Reassessment of Federal Permits	0	55,000	750,000
Right-of-Way Digitization	0	0	450,000
Streambed Navigability Litigation	0	220,000	220,000
Survey Assets	0	0	500,000
Workflow Digitization	0	0	500,000
AGENCY TOTAL	14,003,200	17,738,000	19,615,900 ^{4/}
FUND SOURCES			
General Fund	12,402,200	12,715,900	12,365,900
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	149,400	260,600	260,600
Trust Land Management Fund	1,451,600	4,261,500	6,489,400
SUBTOTAL - Other Appropriated Funds	1,601,000	5,022,100	7,250,000
SUBTOTAL - Appropriated Funds	14,003,200	17,738,000	19,615,900
Other Non-Appropriated Funds	718,400	871,000	871,000
Federal Funds	36,900	15,000	0
TOTAL - ALL SOURCES	14,758,500	18,624,000	20,486,900

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 trust land minerals and other natural products.

^{1/} Includes \$170,000 in supplemental funding from the Trust Land Management Fund for legal expenses incurred in FY 2017.

^{2/} The appropriation includes \$994,400 for Central Arizona Project User Fees in FY 2018. For FY 2018, from municipalities that assume their allocation of Central Arizona Project water for every dollar received as reimbursement to the state for past Central Arizona Water Conservation District payments, \$1.00 reverts to the state General Fund in the year that the reimbursement is collected. (General Appropriation Act footnote)

^{3/} Of the amount appropriated for Natural Resource Conservation Districts in FY 2018, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$14,801,500 and 129.7 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$10,761,500
Environmental Special Plate Fund	600
Trust Land Management Fund	4,039,400

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(170,000) from the Trust Land Management Fund in FY 2018 to eliminate one-time supplemental funding from FY 2017. *(Please see FY 2017 Supplementals section in Other Issues for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(347,100) in FY 2018 for statewide adjustments. This amount consists of:

General Fund	\$(350,000)
Trust Land Management Fund	2,900

(Please see the Agency Detail and Allocations section.)

CAP User Fees

The budget includes \$994,400 from the General Fund in FY 2018 for Central Arizona Project (CAP) User Fees. This amount is unchanged from FY 2017.

CAP Rate Adjustment

The budget continues an increase of \$224,500 from the General Fund that was provided in FY 2017 as a supplemental for revised CAP Rates. This funding level assumes that the department will be billed for "capital charges" of \$31 per acre foot on 32,076 acre feet of water in FY 2018 for a total annual charge of \$994,400 (unchanged from the FY 2017 supplemental level). The original FY 2017 appropriation reflected capital charges of \$24 per acre foot, but CAP rates are not determined until June 15 of each year and the final rate for FY 2017 ended up being \$31 per acre foot. *(Please see the FY 2017 Supplementals section in Other Issues for more information.)*

Pursuant to A.R.S. § 37-106.01, 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&G. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund

The budget includes \$500,000 from the Due Diligence Fund in FY 2018 for this line item. This amount is unchanged from FY 2017.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then reimburse the State Land Department for the cost of the studies.

Natural Resource Conservation Districts

The budget includes \$650,000 in FY 2018 for Natural Resource Conservation Districts (NRCDS). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2017.

Monies in this line item are used to provide for natural resource research, activities, and staff at the state's 30 NRCDS. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRCDS and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCDS be used to provide grants to NRCDS environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCDS. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

The revenue deposited in the Environmental Special Plate Fund consists of \$17 of the \$25 fee for environmental license plates. Current levels of Environmental Special Plate Fund revenue do not permit expenditure of the full appropriation. Revenue for FY 2016 totaled \$144,500 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.

Professional Service Contracts

The budget includes \$250,000 from the Trust Land Management Fund in FY 2018 for the Professional Service Contracts line item. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$250,000 from the Trust Land Management Fund in FY 2018 for Professional Service Contracts.

Monies in this line item will fund service contracts to conduct specialized studies including geographic information system (GIS) data mapping, site clean-ups, trespass mitigation and market research in order to produce optimal results for business operations involving state trust lands.

Reassessment of Federal Permits

The budget includes \$750,000 from the Trust Land Management Fund in FY 2018 for the Reassessment of Federal Permits line item. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$695,000 from the Trust Land Management Fund in FY 2018 for the reassessment of Federal 404 permits.

FY 2017 Supplemental

The budget continues an increase of \$55,000 from the Trust Land Management Fund that was provided in FY 2017 as a supplemental for legal services. *(Please see the FY 2017 Supplementals section in Other Issues for more information.)*

Section 404 of the Federal Water Pollution Control Act, commonly referred to as the Clean Water Act, requires a permit be obtained from the U.S. Environmental Protection Agency before any entity is allowed to deposit dredged or fill material into U.S. waters.

Monies from this line item will fund hydrology studies associated with Federal 404 permits in the Desert Ridge, Paradise Ridge and Azara areas. Reassessing the hydrology studies could increase the value of these trust land parcels as there may have been irregularities with previously collected data.

Right-of-Way Digitization

The budget includes \$450,000 from the Trust Land Management Fund in FY 2018 for the Right-of-Way Digitization line item. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$450,000 from the Trust Land Management Fund in FY 2018 for Right-of-Way Digitization.

Land Trust land parcels encompass over 7,500 right-of-way legal descriptions that are currently recorded in paper documents. Monies in this line item will be used to convert these records into a digital GIS format to allow for more accurate prioritization of land use rights and help mitigate legal exposure.

Streambed Navigability Litigation

The budget includes \$220,000 from the Trust Land Management Fund in FY 2018 for Streambed Navigability Litigation. This amount is unchanged from FY 2017.

Pursuant to A.R.S. §§ 37-1123 and 37-1124, the Land Department is required to provide evidence to the Arizona Navigable Stream Adjudication Commission (ANSAC) to help resolve litigation regarding the navigability of watercourses in the state. *(Please see the Arizona Navigable Stream Adjudication Commission narrative for more information.)*

The Land Department uses monies in this line item to fund expert witness services, technical examinations, and associated legal costs incurred in connection with ongoing hearings and appeals processes.

Survey Assets

The budget includes \$500,000 from the Trust Land Management Fund in FY 2018 for the Survey Assets line item. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$500,000 from the Trust Land Management Fund in FY 2018 to perform asset surveys on State Trust Lands.

Monies in this line item will be used to perform engineering, hydrology, infrastructure, and market research studies to maximize property value of State Trust Lands, such as through mineral discovery.

Workflow Digitization

The budget includes \$500,000 from the Trust Land Management Fund in FY 2018 for the Workflow Digitization line item. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$500,000 from the Trust Land Management Fund in FY 2018 for Workflow Digitization.

Monies in this line item will be used to digitize the department's paper-based system for applications, billing defaults, cancellations and purchase orders.

Other Issues

FY 2017 Supplementals

CAP User Fees

The budget includes an FY 2017 supplemental appropriation of \$224,500 from the General Fund for CAP User Fees. *(Please see Cap User Fees line item for more information.)*

Legal Services

The budget includes an FY 2017 supplemental appropriation of \$225,000 from the Trust Land Management Fund for legal service expenses incurred in FY 2017.

Of the \$225,000 amount, \$170,000 is for expenses relating to a legal case involving 2 real estate development groups that have filed for bankruptcy to avoid foreclosure on 96 acres of vacant State Trust Land in the Desert Ridge area. These monies are reflected in the department's FY 2017 operating budget.

The remaining \$55,000 is for legal studies relating to Federal 404 permits. *(Please see the Reassessment of Federal Permits line item for more information.)*

Proposition 123

As approved by voters at the May 2016 election, Proposition 123 implements the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) to increase the annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

Proposition 123 provided \$172,081,000 in incremental land trust funds to K-12 schools in FY 2016 and \$171,892,400 in FY 2017. It will provide \$187,984,000 in incremental funds in FY 2018. *(Please see the FY 2017 Appropriations Report for more information on Proposition 123.)*

Proposition 123 also increases distributions to other public institutions. Non-K-12 beneficiaries received \$5,745,100 in total distributions under the 2.5% rate in FY 2015. The 6.9% distribution rate under Proposition 123 increased this amount to \$18,176,200 in FY 2016 and \$20,376,700 in FY 2017. In FY 2018, non-K-12 beneficiaries will receive \$22,205,600.

In addition to the distributions from the Treasurer, each beneficiary continues to receive lease revenues generated from their land parcels. Including lease revenues, non-K-12 beneficiaries received \$15,845,800 in total land trust monies in FY 2015. These beneficiaries will receive an estimated \$31,539,200 in FY 2018. *(Please see Table 1.)*

K-12 schools, the universities, and the Arizona School for the Deaf and the Blind may expend the additional revenues generated by Proposition 123 without further legislative action. In order for the remaining beneficiaries to expend their increased revenues, however, additional appropriation authority is required.

Table 1

State Land Trust: Non-K12 Beneficiaries' Revenues, Balances, and Appropriation Authority

<u>Beneficiary/Fund</u>	<u>FY 2015 Total Revenue</u> ^{1/}	<u>FY 2017 Ending Balance</u>	<u>FY 2018 Total Revenue</u> ^{2/}	<u>FY 2018 Appropriation</u>
Universities ^{3/}				
Military Institute	\$ 83,800		\$ 121,200	
Normal Schools ASU/NAU	296,600		571,800	
A & M Colleges	445,100		913,900	
School of Mines	499,800		1,056,400	
University Fund	2,175,400		2,682,500	
U of A Land - 1881	<u>1,659,400</u>		<u>6,116,600</u>	
Subtotal	\$ 5,160,100		\$11,462,400	
School for Deaf and Blind ^{4/}	\$ 424,400		\$ 680,600	
State Hospital	\$ 701,000	\$ 839,700	\$ 876,200	\$ 970,000
Legal, Executive, & Judicial Buildings	\$ 386,300	\$ 3,590,100	\$ 792,900	\$ 137,000
Corrections				
Penitentiaries	\$ 1,382,600	\$ 3,772,300	\$ 2,594,100	\$ 3,062,500 ^{5/}
State Charitable (25%)	<u>1,452,500</u>	<u>3,791,400</u>	<u>2,862,200</u>	<u>3,661,500^{5/}</u>
Subtotal	\$ 2,835,100	\$7,563,700	\$ 5,456,300	\$ 6,724,000
Pioneers' Home				
Miners' Hospital	\$ 1,981,400	\$ 4,146,300	\$ 3,684,200	\$ 2,057,700
State Charitable (50%)	<u>2,905,000</u>	<u>4,849,600</u>	<u>5,724,400</u>	<u>4,547,900</u>
Subtotal	\$ 4,886,400	\$ 8,995,900	\$ 9,408,600	\$ 6,605,600
Juvenile Corrections (State Charitable 25%)	\$ 1,452,500	\$ 2,639,200	\$ 2,862,200	\$ 3,011,300
Non-K-12 Beneficiaries Total	\$15,845,800		\$31,539,200	

1/ Includes actual Treasurer's distributions and lease revenues. The FY 2015 revenues reflect the 2.5% Treasurer's distribution rate in effect prior to Proposition 123.

2/ Includes both Treasurer's distributions and lease revenues. The Treasurer's distributions are known numbers based on the funding formula. The lease revenues reflect the Land Department's FY 2017 estimates from August 2015.

3/ University land trust funds are non-appropriated. As a result, budget appropriations and balance amounts are not included. (Please see ABOR section for more information.)

4/ Arizona Schools for the Deaf and the Blind (ASDB) land trust monies are appropriated as part of the School for the Deaf and the Blind Fund, which also receives revenues from the Arizona Department of Education. The FY 2018 General Appropriation Act allows monies in this fund to be expended in excess of the appropriated amount. As a result, budget appropriations and balance amounts are not included.

5/ Laws 2017, Chapter 286 appropriates \$1.0 million in one-time spending to felony pre-trial intervention programs.

Legislature - Auditor General

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.8	184.8	188.8
Personal Services	11,235,800	11,235,800	11,235,800
Employee Related Expenditures	4,210,600	4,142,600	4,392,400
Professional and Outside Services	499,100	699,100	499,100
Travel - In State	290,800	290,800	290,800
Travel - Out of State	4,500	4,500	4,500
Other Operating Expenditures	1,125,200	1,126,400	1,698,900
Equipment	567,300	567,300	567,300
OPERATING SUBTOTAL	17,933,300	18,066,500	18,688,800 ^{1/2/3/4/}
SPECIAL LINE ITEMS			
Special Audit	0	0	200,000
AGENCY TOTAL	17,933,300	18,066,500	18,888,800
FUND SOURCES			
General Fund	17,933,300	18,066,500	18,688,800
<u>Other Appropriated Funds</u>			
Water Banking Fund	0	0	200,000
SUBTOTAL - Other Appropriated Funds	0	0	200,000
SUBTOTAL - Appropriated Funds	17,933,300	18,066,500	18,888,800
Other Non-Appropriated Funds	1,956,300	1,960,300	1,960,300
TOTAL - ALL SOURCES	19,889,600	20,026,800	20,849,100

AGENCY DESCRIPTION — The Auditor General (AG) provides an independent financial, performance, and compliance audit capability in support of legislative oversight and public accountability of funds administered by the state and certain local governments.

Operating Budget

The budget includes \$18,688,800 and 188.8 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(200,000) from the General Fund in FY 2018 to remove one-time funding for an audit of the Arizona Power Authority added in FY 2017.

Special Investigative Unit

The budget includes an increase of \$572,500 and 4 FTE Positions from the General Fund in FY 2018 for a special investigative unit. The FY 2018 General Appropriation Act

appropriates \$680,000 and 6 FTE Positions from the General Fund in FY 2019 for the same purpose.

Statewide Adjustments

The budget includes an increase of \$249,800 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Special Audit

The budget includes \$200,000 from the Arizona Water Banking Fund in FY 2018 for a one-time special audit of the Central Arizona Water Conservation District. The Auditor General shall complete the special audit on or before December 31, 2017.

- 1/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 2/ General Appropriation Act funds are appropriated as a Lump Sum by Agency with the exception of the \$200,000 Special Audit appropriation which appears in Section 129.
- 3/ Included in the lump sum appropriation is funding to pay state rent at the statewide rate. (General Appropriation Act footnote)
- 4/ The sum of \$680,000 and 6 FTE Positions are appropriated from the state General Fund in FY 2019 to the Auditor General for operating expenditures. (General Appropriation Act footnote)

Legislature - House of Representatives

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	13,686,900	13,201,500	13,419,100
AGENCY TOTAL	13,686,900	13,201,500	13,419,100 ^{1/2/3/}
FUND SOURCES			
General Fund	13,686,900	13,201,500	13,419,100
SUBTOTAL - Appropriated Funds	13,686,900	13,201,500	13,419,100
TOTAL - ALL SOURCES	13,686,900	13,201,500	13,419,100

AGENCY DESCRIPTION — The House of Representatives is made up of 60 members, 2 of whom are elected from each of the legislative districts. The officers and employees of the House of Representatives consist of the Speaker of the House, a Chief Clerk of the House, and other employees as the House directs.

Operating Budget

The budget includes \$13,419,100 from the General Fund in FY 2018 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$217,600 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{2/} Included in the Lump Sum appropriation of \$13,419,100 for FY 2018 is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)
- ^{3/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Legislature - Joint Legislative Budget Committee

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,605,100	1,661,800	1,661,800
Employee Related Expenditures	536,600	601,300	626,800
Professional and Outside Services	82,100	125,000	125,000
Travel - In State	700	500	500
Travel - Out of State	1,100	0	0
Other Operating Expenditures	36,200	97,700	97,700
Equipment	0	2,000	2,000
AGENCY TOTAL	2,261,800	2,488,300	2,513,800 ^{1/2/}
FUND SOURCES			
General Fund	2,261,800	2,488,300	2,513,800
SUBTOTAL - Appropriated Funds	2,261,800	2,488,300	2,513,800
TOTAL - ALL SOURCES	2,261,800	2,488,300	2,513,800

AGENCY DESCRIPTION — The Staff of the Joint Legislative Budget Committee, established by the Arizona Legislature, provides its members with analysis, forecasts, research and recommendations on state government finances and public policies.

Operating Budget

The budget includes \$2,513,800 and 29 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$25,500 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Legislature - Legislative Council

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	49.0	49.0	49.0 ^{1/}
Personal Services	2,684,600	2,785,000	2,785,000
Employee Related Expenditures	963,900	958,900	1,021,900
Professional and Outside Services	26,100	81,600	81,600
Other Operating Expenditures	549,500	767,000	767,000
Equipment	1,194,200	2,800,000	2,800,000
OPERATING SUBTOTAL	5,418,300	7,392,500	7,455,500
SPECIAL LINE ITEMS			
Hearing Loop Installation	0	250,000 ^{2/}	0
Ombudsman-Citizens Aide Office	801,100	822,900	822,900 ^{3/}
AGENCY TOTAL	6,219,400	8,465,400	8,278,400 ^{4/5/6/}
FUND SOURCES			
General Fund	6,219,400	8,215,400	8,278,400
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	0	250,000	0
SUBTOTAL - Other Appropriated Funds	0	250,000	0
SUBTOTAL - Appropriated Funds	6,219,400	8,465,400	8,278,400
TOTAL - ALL SOURCES	6,219,400	8,465,400	8,278,400

AGENCY DESCRIPTION — The Legislative Council, a staff agency of the Legislative Department, provides bill drafting and research services, continuing code revision and manages the operation and renovation of certain legislative buildings and grounds. The council is also responsible for the development, operation, and maintenance of the legislative computer system.

Operating Budget

The budget includes \$7,455,500 and 40 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$63,000 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Hearing Loop Installation

The budget includes no funding from the Telecommunication Fund for the Deaf in FY 2018 for hearing loop installation. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the Telecommunication Fund for the Deaf in FY 2018 for hearing loop installation. Monies in this appropriation funded the one-time installation of looping hearing aid service systems in the House of Representatives and Senate buildings. The looping systems transmit sound

^{1/} Includes 9 GF FTE Positions funded from Special Line Items in FY 2018.

^{2/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act for FY 2017, Section 146)

^{3/} It is the intent of the Legislature that the Ombudsman-Citizens Aide prioritize the investigation and processing of complaints relating to the Department of Child Safety. (General Appropriation Act footnote)

^{4/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{5/} Dues for the Council of State Governments may be expended only on an affirmative vote of the Legislative Council. (General Appropriation Act footnote)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

from the House and Senate Public Address (PA) systems directly into hearing aids allowing device users to clearly hear the sound from the PA systems without disruptive background noise. This one-time appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Ombudsman-Citizens Aide Office

The budget includes \$822,900 and 9 FTE Positions from the General Fund in FY 2018 for the Ombudsman-Citizens Aide Office. These amounts are unchanged from FY 2017.

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.

Legislature - Senate

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	8,165,900	9,408,500	9,548,100
AGENCY TOTAL	8,165,900	9,408,500	9,548,100 ^{1/2/3/}
FUND SOURCES			
General Fund	8,165,900	9,408,500	9,548,100
SUBTOTAL - Appropriated Funds	8,165,900	9,408,500	9,548,100
TOTAL - ALL SOURCES	8,165,900	9,408,500	9,548,100

AGENCY DESCRIPTION — The Senate is made up of 30 members elected from each of the legislative districts. The officers and employees of the Senate consist of the President of the Senate, a Secretary of the Senate, and other employees as the Senate directs.

Operating Budget

The budget includes \$9,548,100 from the General Fund in FY 2018 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$139,600 from the General Fund in FY 2018 for statewide adjustments.
(Please see the Agency Detail and Allocations section.)

1/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
 2/ Included in the Lump Sum appropriation of \$9,548,100 for FY 2018 is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)
 3/ General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Liquor Licenses and Control

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	45.2	45.2	45.2
Personal Services	1,488,600	1,522,700	1,522,700
Employee Related Expenditures	773,100	786,000	826,100
Professional and Outside Services	77,300	40,400	40,400
Travel - In State	87,800	110,400	110,400
Travel - Out of State	0	3,300	3,300
Other Operating Expenditures	497,900	544,600	544,600
OPERATING SUBTOTAL	2,924,700	3,007,400	3,047,500
SPECIAL LINE ITEMS			
Licensing Replacement System	30,600	0	0
AGENCY TOTAL	2,955,300	3,007,400	3,047,500 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	2,955,300	3,007,400	3,047,500
SUBTOTAL - Other Appropriated Funds	2,955,300	3,007,400	3,047,500
SUBTOTAL - Appropriated Funds	2,955,300	3,007,400	3,047,500
Other Non-Appropriated Funds	1,071,800	1,076,000	1,076,000
Federal Funds	82,400	0	0
TOTAL - ALL SOURCES	4,109,500	4,083,400	4,123,500

AGENCY DESCRIPTION — The department licenses, investigates and regulates the production, distribution, and sale of alcoholic beverages throughout the state.

Operating Budget

The budget includes \$3,047,500 and 45.2 FTE Positions from the Liquor Licenses Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$40,100 from the Liquor Licenses Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Licensing Replacement System

The budget includes no funding in FY 2018 for a licensing and imaging system. This amount is unchanged from FY 2017.

Monies in this line item are used for the replacement of the licensing and imaging system. The new system integrates both licensing and imaging; enhances tracking, reporting and enforcement mechanisms; and allows the department to accept online license renewals and fee payments.

The department received \$626,700 in FY 2015 and \$400,000 in FY 2016 for a total of \$1,026,700 for the project. The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) extended the spending authority for the \$1,026,700 combined appropriation through FY 2018. The department has contracted with a vendor to purchase and replace the old licensing system. The project is expected to be completed in August 2017.

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

Arizona State Lottery Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	98.8	98.8	98.8
Personal Services	3,765,800	4,812,000	4,812,000
Employee Related Expenditures	1,584,400	1,693,300	1,798,100
Professional and Outside Services	423,700	386,800	386,800
Travel - In State	241,400	271,600	271,600
Travel - Out of State	19,500	16,800	16,800
Other Operating Expenditures	853,000	1,173,200	1,173,200
Equipment	33,300	0	0
OPERATING SUBTOTAL	6,921,100	8,353,700	8,458,500
SPECIAL LINE ITEMS			
Advertising	9,743,600	15,500,000	15,500,000
Charitable Commissions ^{1/}	1,157,200	1,335,200	1,468,700 ^{2/}
Instant Tickets ^{3/}	13,317,600	22,143,800	19,894,400 ^{3/}
On-Line Vendor Fees ^{4/}	9,343,300	9,625,400	10,019,000 ^{4/}
Retailer Commissions ^{5/}	57,025,600	56,267,000	59,080,300 ^{5/}
AGENCY TOTAL	97,508,400	113,225,100	114,420,900 ^{6/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	97,508,400	113,225,100	114,420,900
SUBTOTAL - Other Appropriated Funds	97,508,400	113,225,100	114,420,900
SUBTOTAL - Appropriated Funds	97,508,400	113,225,100	114,420,900
Other Non-Appropriated Funds	571,668,100	539,847,400	567,528,900
TOTAL - ALL SOURCES	669,176,500	653,072,500	681,949,800

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

Operating Budget

The budget includes \$8,458,500 and 98.8 FTE Positions from the State Lottery Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$104,800 from the State Lottery Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} Charitable Commissions, Instant Tickets, On-Line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items are estimates only.
- ^{2/} An amount equal to 20% of Tab Ticket sales is appropriated for payment of sales commissions to charitable organizations. This amount is currently estimated to be \$1,468,700 in FY 2018. (General Appropriation Act footnote)
- ^{3/} An amount equal to 3.05% 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 \$19,894,400 in FY 2018. (General Appropriation Act footnote)
- ^{4/} An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated for payment of on-line vendor fees. This amount is currently estimated to be \$10,019,000, or 4.256% of actual on-line ticket sales in FY 2018. (General Appropriation Act footnote)
- ^{5/} An amount equal to 6.5% of gross lottery game sales, minus Tab Tickets, is appropriated for payment of sales commissions to ticket retailers. An additional amount not to exceed 0.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7% of total ticket sales, or \$59,080,300 in FY 2018. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Advertising

The budget includes \$15,500,000 from the State Lottery Fund in FY 2018 for Advertising. This amount is unchanged from FY 2017.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The budget includes \$1,468,700 from the State Lottery Fund in FY 2018 for Charitable Commissions. This amount funds the following adjustments:

Tab Ticket Increase

The budget includes an increase of \$133,500 from the State Lottery Fund in FY 2018 to realign spending with projected revenues. *(See Table 1 for more information.)*

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Tab Tickets are games sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

Instant Tickets

The budget includes \$19,894,400 from the State Lottery Fund in FY 2018 for Instant Tickets. This amount funds the following adjustments:

Instant Ticket Sales Increase

The budget includes an increase of \$1,338,100 from the State Lottery Fund in FY 2018 for Instant Tickets due to higher projected sales. *(See Table 1 for more information.)*

Instant Ticket Vendor Rate Decrease

The budget includes a decrease of \$(3,587,500) from the State Lottery Fund in FY 2018 for a reduced instant ticket vendor rate.

Monies in this line item are used to pay for instant ticket printing and distribution costs. The estimated appropriation was lowered from 3.6% of instant ticket sales to 3.05% of instant ticket sales in FY 2018. The reduced amount more closely matches actual expenditures in this Special Line Item. The amount

displayed is derived by applying the new approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The budget includes \$10,019,000 from the State Lottery Fund in FY 2018 for On-Line Vendor Fees. This amount funds the following adjustments:

On-Line Sales Increase

The budget includes an increase of \$393,600 from the State Lottery Fund in FY 2018 for On-Line Vendor Fees due to higher projected sales. *(See Table 1 for more information.)*

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor, which is 4.256% as of September 2016. Under the previous contract agreement the percentage was 3.7%.

Retailer Commissions

The budget includes \$59,080,300 from the State Lottery Fund in FY 2018 for Retailer Commissions. This amount funds the following adjustments:

Retailer Commissions Increase

The budget includes an increase of \$2,813,300 from the State Lottery Fund in FY 2018 for Retailer Commissions due to higher projected sales. *(See Table 1 for more information.)*

Monies in this line item are used to compensate retailers for selling lottery tickets. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-Tab Ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total.

Other Issues

APF - IT System Replacement

The budget includes an FY 2018 transfer of \$3,497,400 from the State Lottery Fund to the Arizona Department of Administration for replacing the commission's IT system. (Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)

Lottery Forecast and Distributions

The budget assumes a (2.9)% decrease in overall Lottery ticket sales in FY 2017, followed by a 4.9% increase in FY 2018. For FY 2017 and FY 2018, the budget assumes Lottery ticket sales of \$846,481,700 and \$887,685,400, 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 2016 and the JLBC Staff projected distributions for FY 2017 and FY 2018. 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 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 2017 and FY 2018 are expected to be \$37,501,500 and \$37,500,800, respectively. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Fund.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is \$11,502,000 in each FY 2017 and FY 2018.

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 2017 and FY 2018 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,501,500 in FY 2017 and \$37,500,800 in FY 2018 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 2017 and FY 2018, 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 \$20,917,600 in FY 2017 and \$21,352,400 in FY 2018. These amounts are distributed among the following agencies:

- 29.4% to the Department of Child Safety for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for Disease Control Research.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2017 and FY 2018.

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 2017 and FY 2018.

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 2017 and FY 2018, 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 2017 and FY 2018.

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 \$38,647,500 in FY 2016. The UCI Fund is expected to require \$39,927,000 in FY 2017 and \$39,923,200 in FY 2018 to make the expected 80% level of debt service payments. The Universities do not plan to issue any additional lease-purchase agreements in FY 2018 above the \$668,710,000 of lease-purchase agreements that have already been or will be issued by the end of FY 2017. 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 2018 Arizona Board of Regents Capital Outlay section for more details.)*

General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. These payments to the General Fund are estimated to equal \$6,622,800 in FY 2017 and \$15,035,200 in FY 2018. Total General Fund distributions, net of bond payments, are therefore estimated to be \$68,761,300 in FY 2017 and \$77,174,400 in FY 2018.

Table 1

**Forecast of Lottery Revenue Distribution
(\$ in Millions)**

<u>Sales</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Instant Sales	\$596.8	\$615.1	\$652.3
On-Line Sales	<u>274.1</u>	<u>231.3</u>	<u>235.4</u>
Total Sales	\$870.9	\$846.4	\$887.7
<i>Less:</i>			
Operating Budget ^{1/}	\$ 97.5	\$ 113.2	\$ 114.4
Gaming Distribution	0.3	0.3	0.3
APF Transfer ^{2/}	0.0	0.0	3.5
Prizes ^{3/}	<u>571.7</u>	<u>539.8</u>	<u>567.5</u>
Net Profit ^{4/}	\$201.4	\$193.1	\$202.0
 <u>Profit Transfers ^{5/}</u>			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{6/}	11.5	11.5	11.5
General Fund - Part 1 ^{7/}	46.7	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	20.5	20.9	21.4
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	38.6	39.9	39.9
General Fund - Part 3 ^{7/8/}	<u>16.6</u>	<u>6.6</u>	<u>15.0</u>
Total Transfer	\$201.4	\$193.1	\$202.0

- ^{1/} Of this amount, an estimated \$1,335,200 in FY 2017 and an estimated \$1,468,700 in FY 2018 will be distributed as commissions to charities that sell lottery Tab Tickets.
- ^{2/} The General Appropriation Act transfers \$3,497,400 from the State Lottery Fund to the Automation Projects Fund in FY 2018 for the cost to replace the Commission's IT system.
- ^{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 2016 rate of return for each game was applied to the current budget forecast. The total rate of return on all games in FY 2016 was 23.17%. The estimated total profit margin is 22.85% in FY 2017 and 22.78% in FY 2018.
- ^{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 \$250,000 to the Tribal College Dual Enrollment Program Fund (This distribution was \$160,000 in FY 2016, but was increased pursuant to Laws 2016, Chapter 124).
- ^{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 \$78,775,000 in FY 2016 and are estimated to be \$68,761,300 in FY 2017 and \$77,174,400 in FY 2018.
- ^{8/} The table includes \$10,596,800 in FY 2016 General Fund transfers that were processed through the state's accounting system after the end of FY 2016.

Board of Massage Therapy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	199,900	241,100	241,100
Employee Related Expenditures	79,300	101,400	106,400
Professional and Outside Services	33,800	34,100	25,100
Travel - In State	500	3,700	3,700
Other Operating Expenditures	109,200	87,400	87,400
Equipment	2,400	2,400	2,400
AGENCY TOTAL	425,100	470,100	466,100 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Massage Therapy Fund	425,100	470,100	466,100
SUBTOTAL - Other Appropriated Funds	425,100	470,100	466,100
SUBTOTAL - Appropriated Funds	425,100	470,100	466,100
TOTAL - ALL SOURCES	425,100	470,100	466,100

AGENCY DESCRIPTION — The board licenses and regulates massage therapists. This agency is one of several housed within the State Boards' Office located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$466,100 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(15,000) from the Board of Massage Therapy Fund in FY 2018 to eliminate one-time funding for implementation of an online system for renewals.

IT Maintenance

The budget includes an increase of \$6,000 from the Board of Massage Therapy Fund in FY 2018 for a maintenance contract for an online licensing system.

Statewide Adjustments

The budget includes an increase of \$5,000 from the Board of Massage Therapy Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Arizona Medical Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	58.5	61.5	61.5
Personal Services	2,875,500	3,112,900	3,337,200
Employee Related Expenditures	984,300	1,151,100	1,305,100
Professional and Outside Services	1,015,400	973,600	973,600
Travel - In State	19,900	22,500	22,500
Travel - Out of State	22,300	29,000	29,000
Other Operating Expenditures	898,800	898,200	898,200
Equipment	287,200	276,300	276,300
AGENCY TOTAL	6,103,400	6,463,600	6,841,900 ^{1/2/}

FUND SOURCES

Other Appropriated Funds

Arizona Medical Board Fund	6,103,400	6,463,600	6,841,900
SUBTOTAL - Other Appropriated Funds	6,103,400	6,463,600	6,841,900
SUBTOTAL - Appropriated Funds	6,103,400	6,463,600	6,841,900
TOTAL - ALL SOURCES	6,103,400	6,463,600	6,841,900

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician's assistants.

Operating Budget

The budget includes \$6,841,900 and 61.5 FTE Positions from the Arizona Medical Board Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Licensing and Investigation Staff

The budget includes an increase of \$320,400 from the Arizona Medical Board Fund in FY 2018 to fund 2 additional investigations and licensing staff members. In lieu of increasing agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire additional staff.

Statewide Adjustments

The budget includes an increase of \$57,900 from the Arizona Medical Board Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (Laws 2016, Chapter 127) requires the Arizona Department of Administration (ADOA) to report to the Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona Medical Board currently resides. ADOA has not yet reported on the sale of the building.

In December 2016, the Joint Committee on Capital Review (JCCR) favorably reviewed a tenant relocation plan by ADOA for the 1740 West Adams Building currently used by the Department of Health Services. The Arizona Medical Board, along with other health regulatory boards, will relocate to the building following renovations in January 2018. *(Please see the ADOA Capital Outlay section for additional information.)*

^{1/} The Arizona Medical Board may use up to 7% of the Arizona Medical Board Fund balance remaining at the end of each fiscal year for a performance based incentive program the following fiscal year based on the program established pursuant to A.R.S. § 38-618. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Mine Inspector

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	461,900	575,300	575,300
Employee Related Expenditures	206,200	202,900	217,200
Professional and Outside Services	15,400	5,000	5,000
Travel - In State	62,200	51,400	51,400
Travel - Out of State	1,900	5,000	5,000
Other Operating Expenditures	206,900	172,700	172,700
Equipment	39,200	5,500	5,500
OPERATING SUBTOTAL	993,700	1,017,800	1,032,100
SPECIAL LINE ITEMS			
Abandoned Mines	186,800	194,700	194,700
Aggregate Mining Land Reclamation	30,300	112,900	112,900 ^{1/}
AGENCY TOTAL	1,210,800	1,325,400	1,339,700 ^{2/}
FUND SOURCES			
General Fund	1,180,500	1,212,500	1,226,800
<u>Other Appropriated Funds</u>			
Aggregate Mining Reclamation Fund	30,300	112,900	112,900
SUBTOTAL - Other Appropriated Funds	30,300	112,900	112,900
SUBTOTAL - Appropriated Funds	1,210,800	1,325,400	1,339,700
Other Non-Appropriated Funds	13,100	15,000	15,000
Federal Funds	560,100	394,200	419,300
TOTAL - ALL SOURCES	1,784,000	1,734,600	1,774,000

AGENCY DESCRIPTION — The State Mine Inspector is an elected constitutional officer and may serve 4 consecutive 4-year terms. The office inspects the health conditions and safety of mining operations, investigates mining accidents, identifies abandoned mines, and conducts safety certification classes for mine employees.

Operating Budget

The budget includes \$1,032,100 and 14 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$14,300 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Abandoned Mines

The budget includes \$194,700 from the General Fund in FY 2018 for Abandoned Mines. This amount is unchanged from FY 2017.

Monies in this line item are used to pay contractors for costs to fill, plug, or fence abandoned mines. These monies are also used to pay administrative salaries and other costs. In addition to General Fund appropriations to the program, deposits can be made into the Abandoned Mines Safety Fund from sources such as intergovernmental agreements and donations.

^{1/} All Aggregate Mining Reclamation Fund monies received by the State Mine Inspector in excess of \$112,900 in FY 2018 are appropriated to the Aggregate Mining Land Reclamation line item. Before the expenditure of any Aggregate Mining Reclamation Fund monies in excess of \$112,900 in FY 2018, the State Mine Inspector shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Aggregate Mining Land Reclamation

The budget includes \$112,900 from the Aggregate Mining Reclamation Fund in FY 2018 for Aggregate Mining Land Reclamation. This amount is unchanged from FY 2017.

Monies in this line item are used to review legally required plans to reclaim land damaged by aggregated mining and ensure compliance with those plans. Aggregate mining is a process whereby earth moving equipment is used to mine an area close to the surface for crushed rock or stone, granite, and sand. Aggregate Mining Reclamation Fund revenues come from fees paid by owners or operators of aggregate mining sites upon submitting a reclamation plan.

Naturopathic Physicians Medical Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	98,100	98,900	98,900
Employee Related Expenditures	40,700	47,400	50,200
Professional and Outside Services	600	4,300	4,300
Travel - In State	1,200	2,000	2,000
Other Operating Expenditures	31,600	31,600	27,600
AGENCY TOTAL	172,200	184,200	183,000^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Naturopathic Physicians Medical Board Fund	172,200	184,200	183,000
SUBTOTAL - Other Appropriated Funds	172,200	184,200	183,000
SUBTOTAL - Appropriated Funds	172,200	184,200	183,000
TOTAL - ALL SOURCES	172,200	184,200	183,000

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 located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$183,000 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(4,000) from the Naturopathic Physicians Medical Board Fund in FY 2018 to eliminate one-time funding for laptops purchased for board meetings.

Statewide Adjustments

The budget includes an increase of \$2,800 from the Naturopathic Physicians Medical Board Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Arizona Navigable Stream Adjudication Commission

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	70,000	70,000	70,000
Employee Related Expenditures	24,000	24,000	25,500
Professional and Outside Services	218,400	196,100	196,100
Travel - In State	2,000	3,900	3,900
Other Operating Expenditures	32,600	28,400	28,400
Equipment	0	1,600	1,600
AGENCY TOTAL	347,000	324,000	325,500 ^{1/}
FUND SOURCES			
General Fund	126,600	124,000	125,500
<u>Other Appropriated Funds</u>			
Arizona Water Banking Fund	220,400	200,000	200,000
SUBTOTAL - Other Appropriated Funds	220,400	200,000	200,000
SUBTOTAL - Appropriated Funds	347,000	324,000	325,500
TOTAL - ALL SOURCES	347,000	324,000	325,500

AGENCY DESCRIPTION — The Arizona Navigable Stream Adjudication Commission (ANSAC) is a 5-member body charged with determining the ownership of watercourses in the state by establishing whether the watercourses were navigable at the time of statehood. If navigable, title to the watercourse belongs to the state based on a series of court rulings. If non-navigable, the title to the watercourse belongs to the current title holder.

Operating Budget

The budget includes \$325,500 and 2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$125,500
Arizona Water Banking Fund	200,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,500 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Arizona Water Banking Fund

The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) continues to allow the commission to use monies appropriated to it from the Arizona Water

Banking Fund for the commission's unpaid legal obligations.

The General Appropriation Act appropriates \$200,000 from the Arizona Water Banking Fund to the commission in FY 2018. In FY 2017, the commission spent \$200,000 from the Water Banking Fund for unpaid legal obligations.

Litigation

The commission is responsible for determining the navigability of state watercourses at the time of statehood. If navigable, the watercourses are considered State Trust Land and any related proceeds from the waterbeds would be deposited in the Riparian Trust Fund, pursuant to A.R.S. § 37-1156. The monies in this fund are primarily used to acquire and maintain land adjacent to the waterbeds for conservation purposes.

As of May 2006, ANSAC had determined all watercourses in Arizona to be non-navigable at the time of statehood. In June 2006, the first appeal was filed against the commission by the Arizona Center for Law in the Public Interest and the State Land Department regarding the commission's determination for the Lower Salt River. Five

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

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.

In February 2012, the United States Supreme Court ruling in *PPL Montana v. Montana* required the commission to resolve whether individual segments of the affected streambeds were navigable prior to statehood. The commission had previously determined navigability for each streambed as a whole rather than by segments. Following the U.S. Supreme Court decision, the commission adopted a segment-by-segment approach in determining navigability for the 6 remanded cases.

As of May 2017, the commission has completed hearings for the 6 remanded cases and begun working to prepare the legal reports for each case. Once completed, the reports will be distributed to the commissioners for review, at which point they will adopt by vote each individual report. The reports will then be delivered to the Land Commissioner, signifying the beginning of the appeals process. At that point the Land Commissioner will have a 6-month window to appeal to the Superior Court for Judicial Review one or all of the cases. Pending any new appeals, the commission should complete the agency's trial work by 2018. The commission is scheduled to sunset on June 30, 2020 pursuant to Laws 2015, Chapter 58.

State Board of Nursing

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	42.2	42.2	42.2
Personal Services	2,318,500	2,327,800	2,327,800
Employee Related Expenditures	923,400	914,800	970,500
Professional and Outside Services	324,300	341,700	341,700
Travel - In State	3,800	10,000	10,000
Travel - Out of State	6,500	8,000	8,000
Other Operating Expenditures	612,600	603,400	623,400
Equipment	43,900	42,400	42,400
OPERATING SUBTOTAL	4,233,000	4,248,100	4,323,800
SPECIAL LINE ITEMS			
Certified Nursing Assistant Credentialing Program	468,800	536,700	536,700
AGENCY TOTAL	4,701,800	4,784,800	4,860,500 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,701,800	4,784,800	4,860,500
SUBTOTAL - Other Appropriated Funds	4,701,800	4,784,800	4,860,500
SUBTOTAL - Appropriated Funds	4,701,800	4,784,800	4,860,500
Federal Funds	414,300	414,700	518,600
TOTAL - ALL SOURCES	5,116,100	5,199,500	5,379,100

AGENCY DESCRIPTION — The board licenses, regulates, conducts examinations and approves educational programs for nurses and nurse aides.

Operating Budget

The budget includes \$4,323,800 and 42.2 FTE Positions from the Board of Nursing Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Server Relocation

The budget includes an increase of \$20,000 from the Board of Nursing Fund in FY 2018 for one-time computer server relocation costs. The Board of Nursing is moving from privately-leased office space to the 1740 West Adams building currently used by the Department of Health Services.

Statewide Adjustments

The budget includes an increase of \$55,700 from the Board of Nursing Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Certified Nursing Assistant Credentialing Program

The budget includes \$536,700 from the Board of Nursing Fund in FY 2018 for the Certified Nursing Assistant (CNA) Credentialing Program line item. This amount is unchanged from FY 2017.

Laws 2015, Chapter 262 split the current CNA classification into licensed nursing assistants (LNA) and certified nursing assistants (CNA) effective July 1, 2016. The board registers 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 pay application, fingerprinting and other fees to be deposited 10% to the General Fund and 90% to the Board of Nursing Fund.

Monies in this line item fund CNA Credentialing program costs not paid by federal monies.

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

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	243,000	247,000	247,000
Employee Related Expenditures	92,600	98,000	103,100
Professional and Outside Services	5,000	8,000	8,000
Travel - In State	3,900	7,000	7,000
Travel - Out of State	1,300	4,000	4,000
Other Operating Expenditures	37,500	75,400	51,400
Equipment	9,500	6,000	6,000
AGENCY TOTAL	392,800	445,400	426,500 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	392,800	445,400	426,500
SUBTOTAL - Other Appropriated Funds	392,800	445,400	426,500
SUBTOTAL - Appropriated Funds	392,800	445,400	426,500
TOTAL - ALL SOURCES	392,800	445,400	426,500

AGENCY DESCRIPTION — The board licenses, certifies, and regulates administrators of nursing care institutions and managers of adult care homes.

Operating Budget

The budget includes \$426,500 and 6 FTE Positions from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

E-Licensing

The budget includes a decrease of \$(24,000) from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2018 for e-licensing expenses. The monies will instead be transferred to the Arizona Department of Administration in FY 2018. (See *Other Issues*.)

Statewide Adjustments

The budget includes an increase of \$5,100 from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2018 for statewide adjustments. (Please see the *Agency Detail and Allocations* section.)

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$27,500 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. (Please see the *Department of Administration - Automation Projects Fund* for details regarding this information technology project.)

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

Board of Occupational Therapy Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	97,100	91,000	91,000
Employee Related Expenditures	42,500	46,100	49,100
Professional and Outside Services	300	0	0
Travel - In State	500	1,300	1,300
Other Operating Expenditures	28,800	30,300	40,300
Equipment	0	2,000	2,000
AGENCY TOTAL	169,200	170,700	183,700 ^{1/}

FUND SOURCES

Other Appropriated Funds

Occupational Therapy Fund	169,200	170,700	183,700
SUBTOTAL - Other Appropriated Funds	169,200	170,700	183,700
SUBTOTAL - Appropriated Funds	169,200	170,700	183,700
TOTAL - ALL SOURCES	169,200	170,700	183,700

AGENCY DESCRIPTION — The board examines and licenses occupational therapists and occupational therapy assistants, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The budget includes \$183,700 and 1.5 FTE Positions from the Occupational Therapy Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Multi-Function Printer

The budget includes a one-time increase of \$10,000 from the Occupational Therapy Fund in FY 2018 for a new multi-function printer.

Statewide Adjustments

The budget includes an increase of \$3,000 from the Occupational Therapy Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$45,900 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

State Board of Dispensing Opticians

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	69,800	70,500	70,500
Employee Related Expenditures	28,400	29,700	31,400
Professional and Outside Services	200	500	500
Travel - In State	8,800	8,800	8,800
Travel - Out of State	1,600	1,800	1,800
Other Operating Expenditures	10,400	28,700	28,700
AGENCY TOTAL	119,200	140,000	141,700 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Dispensing Opticians Fund	119,200	140,000	141,700
SUBTOTAL - Other Appropriated Funds	119,200	140,000	141,700
SUBTOTAL - Appropriated Funds	119,200	140,000	141,700
TOTAL - ALL SOURCES	119,200	140,000	141,700

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 located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$141,700 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,700 from the Board of Dispensing Opticians Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$27,500 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

State Board of Optometry

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	118,000	113,400	113,400
Employee Related Expenditures	41,000	41,000	43,100
Professional and Outside Services	0	0	10,000
Travel - In State	1,400	1,500	1,500
Travel - Out of State	3,000	3,000	3,000
Other Operating Expenditures	74,200	51,200	51,200
AGENCY TOTAL	237,600	210,100	222,200 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Optometry Fund	237,600	210,100	222,200
SUBTOTAL - Other Appropriated Funds	237,600	210,100	222,200
SUBTOTAL - Appropriated Funds	237,600	210,100	222,200
TOTAL - ALL SOURCES	237,600	210,100	222,200

AGENCY DESCRIPTION — The board licenses and regulates optometrists and issues certificates authorizing the use of diagnostic pharmaceutical agents. An optometrist examines eyes, measures vision, and prescribes corrective lenses and treatments which do not require a licensed physician.

Operating Budget

The budget includes \$222,200 and 2 FTE Positions from the Board of Optometry Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Investigation Costs

The budget includes an increase of \$10,000 from the Board of Optometry Fund in FY 2018 for increased investigation costs.

Statewide Adjustments

The budget includes an increase of \$2,100 from the Board of Optometry Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$45,900 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. (Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)

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

Arizona Board of Osteopathic Examiners in Medicine and Surgery

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.7	7.2	7.2
Personal Services	356,200	415,200	415,200
Employee Related Expenditures	133,500	169,000	176,600
Professional and Outside Services	134,200	158,700	158,700
Travel - In State	2,800	3,000	3,000
Travel - Out of State	3,800	5,000	5,000
Other Operating Expenditures	121,300	156,600	154,600
Equipment	12,700	33,000	0
AGENCY TOTAL	764,500	940,500	913,100 ^{1/}

FUND SOURCES

Other Appropriated Funds

AZ Board of Osteopathic Examiners in Medicine and Surgery Fund	764,500	940,500	913,100
SUBTOTAL - Other Appropriated Funds	764,500	940,500	913,100
SUBTOTAL - Appropriated Funds	764,500	940,500	913,100
TOTAL - ALL SOURCES	764,500	940,500	913,100

AGENCY DESCRIPTION — The agency licenses and regulates medical physicians who practice osteopathic medicine, a system of medical treatment that emphasizes the inter-relationship of the body's muscles, bones, and joints with other body systems as an adjunct to invasive and/or chemically-based treatment.

Operating Budget

The budget includes \$913,100 and 7.2 FTE Positions from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Information Technology Software Contract

The budget includes an increase of \$4,000 from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2018 for an increase in the board's contract with a software provider.

Remove One-Time Funding

The budget includes a decrease of \$(39,000) from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2018 to eliminate one-time funding for database and licensing system development costs and replacement of information technology equipment.

Statewide Adjustments

The budget includes an increase of \$7,600 from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (Laws 2016, Chapter 127) requires the Arizona Department of Administration (ADOA) to report to the Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona Board of Osteopathic Examiners in Medicine and Surgery currently resides. ADOA has not yet reported on the sale of the building.

In December 2016, the Joint Committee on Capital Review (JCCR) favorably reviewed a tenant relocation plan by ADOA for the 1740 West Adams Building currently used by the Department of Health Services. The Board of Osteopathic Examiners in Medicine and Surgery, along with other health regulatory boards, will relocate to the building following renovations in January 2018. (Please see the ADOA Capital Outlay section for additional information.)

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

Arizona Parents Commission on Drug Education and Prevention

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 ESTIMATE
SPECIAL LINE ITEMS			
Prevention Education Program	0	300,000	0
AGENCY TOTAL	0	300,000	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Drug Treatment and Education Fund	0	300,000	0
SUBTOTAL - Other Appropriated Funds	0	300,000	0
SUBTOTAL - Appropriated Funds	0	300,000	0
Other Non-Appropriated Funds	5,295,200	4,788,000	5,088,000
TOTAL - ALL SOURCES	5,295,200	5,088,000	5,088,000

AGENCY DESCRIPTION — The commission funds programs that increase and enhance parental involvement and education regarding the serious risks and public health problems caused by the abuse of alcohol and controlled substances. With the exception of a FY 2017 appropriation, the commission typically does not receive an appropriation from the Legislature.

Prevention Education Program

The budget includes no appropriated funding from the Drug Treatment and Education Fund in FY 2018 for the Prevention Education Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(300,000) from the Drug Treatment and Education Fund in FY 2018 for the Prevention Education Program for students. This one-time appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Monies in this line item are used to fund the provisions of the school prevention education program. The program is required to promote positive life choices by middle school and high school students, and to incorporate an educational prevention component focusing on substance abuse, mental health, violence, and other risky behaviors.

Arizona State Parks Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0 ^{1/}
Personal Services	4,041,100	4,450,700	4,450,700
Employee Related Expenditures	1,890,800	2,062,400	2,296,200
Professional and Outside Services	71,600	56,300	56,300
Travel - In State	4,100	13,000	13,000
Travel - Out of State	200	0	0
Other Operating Expenditures	3,211,800	5,342,500	5,142,500
Equipment	473,500	185,700	185,700
OPERATING SUBTOTAL	9,693,100	12,110,600 ^{2/}	12,144,400 ^{3/}
SPECIAL LINE ITEMS			
Arizona Trail Fund	0	150,000	0
Federal Contingency Funding	0	1,500,000	0
Kartchner Caverns State Park	2,201,200	2,226,300	2,257,100
Yarnell Hill Memorial	76,100	0	0
AGENCY TOTAL	11,970,400	15,986,900	14,401,500 ^{4/}
FUND SOURCES			
General Fund	76,100	0	0
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	11,894,300	15,986,900	14,401,500
SUBTOTAL - Other Appropriated Funds	11,894,300	15,986,900	14,401,500
SUBTOTAL - Appropriated Funds	11,970,400	15,986,900	14,401,500
Other Non-Appropriated Funds	9,714,600	19,366,000	12,991,000
Federal Funds	3,118,600	4,332,200	1,670,100
TOTAL - ALL SOURCES	24,803,600	39,685,100	29,062,600

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, and historic preservation.

Operating Budget

The budget includes \$12,144,400 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Increased Operating Costs

The budget includes an increase of \$500,000 from the State Parks Revenue Fund in FY 2018 for increased operating costs associated with increased state park attendance, such as utilities, vendors and supplies.

^{1/} Includes 35.8 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} Notwithstanding A.R.S. § 35-190D, the appropriation [of \$1,500,000] made in this act for FY 2017 that is unexpended on June 30, 2019 reverts to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)

^{3/} 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 2018, an additional 10% of this increase of Fool Hollow receipts is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 to meet the revenue sharing agreement with the City of Show Low and the United States Forest Service. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Major Maintenance and Repairs

The budget includes a decrease of \$(700,000) from the State Parks Revenue Fund in FY 2018 for the elimination of a one-time FY 2017 supplemental and the addition of ongoing funding for major maintenance and repairs.

The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) includes a FY 2017 supplemental appropriation of \$1,500,000 from the State Parks Revenue Fund for one-time major maintenance and repairs, which consists of projects that remedy damaged or inadequate capital resources. This amount is available for use through the end of FY 2019.

Of this amount, \$1,000,000 funds 6 water/wastewater facility projects, which includes replacement, repair, and reconstruction of wastewater plants, leach fields, septic tanks, and sewage lift stations. The remaining \$500,000 funds 4 historic structure rehabilitation projects, which includes upgrades and repairs of roofing, walls, and flooring and stabilization of structural weaknesses, some relating to fire suppression.

The budget includes an ongoing \$800,000 from the State Parks Revenue Fund in FY 2018 for new major maintenance and repair projects.

Retirement Rate Increase

The budget includes an increase of \$117,200 from the State Parks Revenue Fund in FY 2018 for an increase in the Public Safety Personnel Retirement System employer contribution rate. These monies fund an increase in the Parks Police employer contribution rate from 44.94% in FY 2017 to 57.35% in FY 2018.

Statewide Adjustments

The budget includes an increase of \$116,600 from the State Parks Revenue Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Arizona Trail Fund

The budget includes no funding in FY 2018 for the Arizona Trail Fund. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(150,000) from the State Parks Revenue Fund in FY 2018 for the elimination of a one-time transfer to the Arizona Trail Fund.

The Arizona Trail Fund is used to maintain and preserve the Arizona Trail, which is an 819-mile nonmotorized trail that crosses Arizona from the southern border to the northern border.

Federal Contingency Funding

The budget includes no funding in FY 2018 for the Federal Contingency Funding line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,500,000) from the State Parks Revenue Fund in FY 2018 for the elimination of one-time contingency funding

This appropriation may only be spent after the board submits an agency expenditure plan for review by the Joint Legislative Budget Committee that demonstrates that the actual amount of federal funding the board will receive in FY 2017 is less than the actual amount of federal monies received by the board in FY 2016. The amount spent by the board may not exceed the estimated decrease in federal monies between FY 2016 and FY 2017. As of June 2017, the agency had not submitted a plan to JLBC for review to spend the appropriation.

Kartchner Caverns State Park

The budget includes \$2,257,100 and 35.8 FTE Positions from the State Parks Revenue Fund in FY 2018 for Kartchner Caverns State Park. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$30,800 from the State Parks Revenue Fund in FY 2018 for statewide adjustments.

Kartchner Caverns is located in Benson, Arizona and was discovered in 1974. The State Parks Board acquired the property in 1988 and opened the caverns to the public in 1999.

Other Issues

FY 2017 Supplemental

The budget includes an increase of \$1,500,000 from the State Parks Revenue Fund in FY 2017 for major maintenance and repairs. This amount is non-lapsing until the end of FY 2019. *(See Major Maintenance and Repairs above for additional information.)*

Additional Legislation

Operating Funding

As session law, the FY 2018 Environment BRB (Laws 2017, Chapter 308) continues to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs in FY 2018.

Capital Projects

The FY 2018 Capital Bill Outlay (Laws 2017, Chapter 306) includes \$5,300,000 from the State Parks Revenue Fund in FY 2018 for Parks Board capital projects. This amount includes \$4,000,000 for the construction of Rockin' River Ranch State Park and \$1,300,000 for general capital improvement projects. These amounts are available for use through the end of FY 2019. *(Please see the Capital Outlay ADOA Building System section for more information.)*

Status of Parks

As of May 2017, 29 state parks are open to the public:

- Twenty open parks use only existing state fund sources (Alamo Lake, Buckskin Mountain, Catalina, Cattail Cove, Dead Horse Ranch, Fool Hollow, Fort Verde, Granite Mountain Hotshot Memorial, Jerome, Kartchner Caverns, Lake Havasu, Lost Dutchman, Lyman Lake, Oracle, Patagonia Lake, Picacho Peak, Roper Lake, River Island, Slide Rock, and Tonto Natural Bridge).
- Seven open parks are 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).

(Please see Table 1 for more information.)

Yarnell Hill Memorial

The FY 2015 Environment Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 13) appropriated \$500,000 in non-lapsing General Fund monies for the establishment of the Yarnell Hill Memorial Park. The Environment BRB also created the Yarnell Hill Memorial Site Board, responsible for designating a site and approving the design and construction of the memorial.

Table 1

Arizona State Parks FY 2016 Visitation and Revenue ^{1/2/}

Park	Visitation	Revenue
Alamo Lake	40,313	\$ 305,021
Boyce Thompson	84,209	11,400
Buckskin Mountain ^{3/}	96,870	713,874
Catalina	181,012	1,190,086
Cattail Cove	58,127	573,394
Dead Horse Ranch	162,370	1,022,419
Fool Hollow Lake	96,099	653,757
Fort Verde	10,828	51,517
Homolovi	21,209	112,456
Jerome	47,556	268,240
Kartchner	157,815	2,561,361
Lake Havasu	440,692	1,499,743
Lost Dutchman	159,765	890,529
Lyman Lake	10,330	120,298
McFarland	8,932	-
Oracle	6,941	16,709
Park Store	NA	59,080
Patagonia Lake	208,519	1,126,908
Picacho Peak	80,067	376,239
Red Rock	59,843	396,852
Riordan Mansion	23,866	-
Roper Lake	68,206	386,850
Slide Rock	398,977	1,493,860
Tombstone	46,549	-
Tonto Natural Bridge	123,431	707,629
Tubac Presidio	10,923	-
Yuma Quartermaster	15,307	-
Yuma Prison	62,948	-
Credit Card Fees	NA	(254,525)
Total	2,681,704	\$14,283,694

^{1/} ASPB does not receive revenues from certain partnership parks, including McFarland, Riordan Mansion, Tubac Presidio, Yuma Quartermaster, and Yuma Prison.

^{2/} Granite Mountain Hotshots Memorial State Park opened in FY 2017 and is therefore excluded from the table.

^{3/} Includes visitation and revenue figures for River Island State Park.

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 administered the fund until December 31, 2016, when the board's authority lapsed. The State Parks Board now administers 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.

The Yarnell Hill Memorial State Park, also referred to as the Granite Mountain Hotshots Memorial State Park, was opened to the public on November 30, 2016.

State Personnel Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	113,100	125,000	125,000
Employee Related Expenditures	45,300	45,800	48,600
Professional and Outside Services	75,400	162,800	162,800
Travel - In State	1,300	2,400	2,400
Other Operating Expenditures	34,300	36,600	36,600
Equipment	3,100	2,700	2,700
AGENCY TOTAL	272,500	375,300	378,100 ^{1/}

FUND SOURCES

Other Appropriated Funds

Personnel Board Subaccount of the Personnel Division Fund	272,500	375,300	378,100
SUBTOTAL - Other Appropriated Funds	272,500	375,300	378,100
SUBTOTAL - Appropriated Funds	272,500	375,300	378,100
TOTAL - ALL SOURCES	272,500	375,300	378,100

AGENCY DESCRIPTION — The State Personnel Board hears appeals for covered state employees in the State Personnel System who have been dismissed, involuntarily demoted, or suspended for more than 80 hours. The board may recommend modifying or reversing the agency decision, but the agency makes the final determination. The board also hears “whistleblower” complaints concerning reprisals against employees or former employees who disclose information to a public body. If the Personnel Board finds a reprisal occurred, the employee who committed the reprisal shall be ordered by the board to pay a civil penalty of up to \$5,000, and the board shall rescind the personnel action and order all lost pay and benefits be restored to the “whistleblower.”

Operating Budget

The budget includes \$378,100 and 3 FTE Positions from the Personnel Board Subaccount of the Personnel Division Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,800 from the Personnel Board Subaccount of the Personnel Division Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Office of Pest Management

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.0	0.0	0.0
Personal Services	768,100	0	0
Employee Related Expenditures	380,400	0	0
Travel - In State	25,400	0	0
Other Operating Expenditures	198,900	0	0
Equipment	800	0	0
AGENCY TOTAL	1,373,600	0	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Pest Management Fund	1,373,600	0	0
SUBTOTAL - Other Appropriated Funds	1,373,600	0	0
SUBTOTAL - Appropriated Funds	1,373,600	0	0
Federal Funds	88,200	0	0
TOTAL - ALL SOURCES	1,461,800	0	0

AGENCY DESCRIPTION — The agency licensed and regulated professional pest control companies and conducted examinations of applicators of structural pesticides. Beginning in FY 2017, the responsibilities of the Office of Pest Management were transferred to the Division of Pest Management within the Department of Agriculture.

Laws 2016, Chapter 221 merged the Office of Pest Management into the Department of Agriculture (ADA), creating the Division of Pest Management (Division) within ADA, as of July 1, 2016. Chapter 221 transferred all authority, powers, duties and responsibilities previously granted to the Office of Pest Management to the Division.

While the FY 2016 General Appropriation Act appropriated a separate budget for the Office of Pest Management, Chapter 221 transferred all appropriated monies of the Office of Pest Management to the new Division within ADA. FY 2016 actual expenditures for the Office of Pest Management are displayed in the table above. *(Please see the Department of Agriculture narrative for more information.)*

Arizona State Board of Pharmacy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	19.0
Personal Services	1,172,100	1,212,600	1,257,600
Employee Related Expenditures	418,200	403,000	435,400
Professional and Outside Services	92,800	193,200	136,200
Travel - In State	42,500	42,500	42,500
Travel - Out of State	5,100	5,000	5,000
Other Operating Expenditures	261,600	258,900	258,900
Equipment	2,400	0	0
OPERATING SUBTOTAL	1,994,700	2,115,200	2,135,600
SPECIAL LINE ITEMS			
Annual Leave Payout	0	20,000	24,500
Prescriber Report Card	0	0	125,000
AGENCY TOTAL	1,994,700	2,135,200	2,285,100 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona State Board of Pharmacy Fund	1,994,700	2,135,200	2,285,100
SUBTOTAL - Other Appropriated Funds	1,994,700	2,135,200	2,285,100
SUBTOTAL - Appropriated Funds	1,994,700	2,135,200	2,285,100
Other Non-Appropriated Funds	584,100	727,900	727,900
TOTAL - ALL SOURCES	2,578,800	2,863,100	3,013,000

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

The budget includes \$2,135,600 and 19 FTE Positions from the Arizona State Board of Pharmacy Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(100,000) from the Arizona State Board of Pharmacy Fund in FY 2018 for elimination of one-time funding for an E-licensing system. The board has decided not to participate in the E-licensing project.

Certificate of Free Sale

The budget includes an increase of \$83,000 and 1 FTE Position from the Arizona State Board of Pharmacy Fund in FY 2018 to fund the Certificate of Free Sale program.

Laws 2016, Chapter 284 allows the board to issue Certificates of Free Sale, which serve as evidence that goods such as nutraceuticals, cosmetics and medical devices are legally sold or distributed in the open market, sold without restriction, and approved by regulatory authorities. The board must regularly inspect facilities to ensure ongoing compliance with manufacturing processes as defined by the U.S. Food and Drug Administration. The increase will fund a program project specialist and provide training to existing staff members.

Rule Writer

The budget includes a one-time increase of \$15,000 from the Arizona State Board of Pharmacy Fund in FY 2018 for a rule writer.

Laws 2016, Chapters 211 and 284, relating to the Controlled Substances Prescription Monitoring Program and the Certificates of Free Sale Program respectively, made several statutory changes requiring board action

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

and exempted the board from the freeze on regulatory rulemaking to allow for program implementation.

Statewide Adjustments

The budget includes an increase of \$22,400 from the Arizona State Board of Pharmacy Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes \$24,500 from the Arizona State Board of Pharmacy Fund in FY 2018 for annual leave payouts. This amount funds the following adjustments:

One-Time Annual Leave Payout

The budget includes an increase of \$4,500 from the Arizona State Board of Pharmacy Fund in FY 2018 for a one-time annual leave payout for anticipated retirements.

The FY 2017 budget included a one-time increase of \$20,000 for annual leave payout for retiring Board of Pharmacy personnel. Although the FY 2018 budget includes a decrease of \$(20,000) to remove the increase from FY 2017, the budget also includes an appropriation of \$24,500 for new anticipated retirements in FY 2018. The net result is a \$4,500 increase to the Annual Leave Payout line item.

Prescriber Report Card

The budget includes \$125,000 from the Arizona State Board of Pharmacy Fund in FY 2018 for a Prescriber Report Card program. Of that amount, \$75,000 is one-time.

Monies in this line item will be used to develop opioid prescriber report cards as part of the Controlled Substances Prescription Monitoring Program (CSPMP). The prescriber report cards will include detailed information comparing a practitioner's history of prescribing controlled substances with peers in a similar practice.

Other Issues

Controlled Substances Prescription Monitoring Program

Laws 2016, Chapter 211 requires a medical practitioner to obtain a patient utilization report from the CSPMP's central database tracking system before prescribing an opioid analgesic or benzodiazepine controlled substance listed as a schedule II, III, or IV substance. This

requirement goes into effect October 1, 2017 or 60 days after CSPMP data has been integrated into the statewide Health Information Exchange, whichever comes later.

The Board of Pharmacy operates the CSPMP. Laws 2017, Chapter 61 requires the Board of Pharmacy to conduct an annual survey of program users to assess user satisfaction with CSPMP's central database tracking system. On or before December 1 of each year, the board must deliver the report to the President of the Senate, the Speaker of the House of Representatives, the Secretary of State, and the Governor.

Chapter 61 also permits the board director to annually transfer up to \$500,000, rather than the previous statutory limit of \$395,795, from the Arizona State Board of Pharmacy to the non-appropriated CSPMP Fund. These monies will be used for program expenses relating to automated tracking of controlled substances, assisting law enforcement in identifying illegal use of controlled substances, and providing information to patients, medical practitioners, and pharmacists.

Board of Physical Therapy

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	194,000	200,800	200,800
Employee Related Expenditures	94,600	102,000	108,800
Professional and Outside Services	83,200	76,000	76,000
Travel - In State	500	1,500	1,500
Other Operating Expenditures	53,900	91,800	58,800
Equipment	11,300	12,100	2,100
AGENCY TOTAL	437,500	484,200	448,000^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Physical Therapy Fund	437,500	484,200	448,000
SUBTOTAL - Other Appropriated Funds	437,500	484,200	448,000
SUBTOTAL - Appropriated Funds	437,500	484,200	448,000
TOTAL - ALL SOURCES	437,500	484,200	448,000

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 located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$448,000 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(43,000) from the Board of Physical Therapy Fund in FY 2018 to eliminate one-time funding for laptop replacement and unexpended funding for implementation and annual maintenance of online licensing software.

Statewide Adjustments

The budget includes an increase of \$6,800 from the Board of Physical Therapy Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$45,900 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

Arizona Pioneers' Home

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	106.3	106.3	106.3
Personal Services	3,144,300	3,408,700	3,706,700
Employee Related Expenditures	1,605,300	1,652,100	1,785,100
Professional and Outside Services	87,600	93,300	93,300
Travel - In State	25,200	25,000	25,000
Other Operating Expenditures	753,100	757,000	757,000
Equipment	40,200	38,500	38,500
OPERATING SUBTOTAL	5,655,700	5,974,600	6,405,600
SPECIAL LINE ITEMS			
Prescription Drugs	148,300	200,000	200,000
AGENCY TOTAL	5,804,000	6,174,600	6,605,600 ^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Miners' Hospital for Miners with Disabilities Fund	1,768,700	2,028,900	2,057,700
State Charitable Fund	4,035,300	4,145,700	4,547,900
SUBTOTAL - Other Appropriated Funds	5,804,000	6,174,600	6,605,600
SUBTOTAL - Appropriated Funds	5,804,000	6,174,600	6,605,600
Other Non-Appropriated Funds	88,000	28,100	28,100
TOTAL - ALL SOURCES	5,892,000	6,202,700	6,633,700

AGENCY DESCRIPTION — The Arizona Pioneers' Home provides a home and long-term nursing care and medical care for Arizona pioneers, long-term residents, and disabled miners. The Home cares for, on average, 105 residents.

Operating Budget

The budget includes \$6,405,600 and 106.3 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
Miners' Hospital Fund	\$2,057,700
State Charitable Fund	4,347,900

These amounts fund the following adjustments:

Nursing Wage Adjustment

The budget includes an increase of \$318,000 from the State Charitable Fund in FY 2018 to fund the adoption of a new step salary plan for nursing staff. The home adopted the plan in June 2016 to address high nurse turnover rates. The new step plan is consistent with the step plan used by other government healthcare facilities in Arizona

and increases wages by approximately 9-15%, depending on the position.

Statewide Adjustments

The budget includes an increase of \$113,000 in FY 2018 for statewide adjustments. This amount consists of:

Miners' Hospital Fund	28,800
State Charitable Fund	84,200

(Please see the Agency Detail and Allocations section.)

Prescription Drugs

The budget includes \$200,000 from the State Charitable Fund in FY 2018 for Prescription Drugs. This amount is unchanged from FY 2017.

Monies in this line item provide funding for prescription drugs used by residents at the Arizona Pioneers' Home.

^{1/} Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated for the Arizona Pioneers' Home and the State Hospital for Miners with Disabilities in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Other Issues

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.

The Arizona Pioneers' Home received a total of \$4,886,400 in its land trust funds, the Miners' Hospital Fund and the State Charitable Fund, in FY 2015.

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

The JLBC Staff projects that the Miners' Hospital Fund will have an FY 2017 ending balance of \$4,146,300. The fund will have estimated revenues of \$3,684,200 in FY 2018, compared to an appropriation of \$2,057,700.

The JLBC Staff projects that the State Charitable Fund will have an FY 2017 ending balance of \$4,849,600. The fund will have estimated revenues of \$5,724,400 in FY 2018, compared to an appropriation of \$4,547,900.

(Please see the Land Department narrative for more information.)

State Board of Podiatry Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	68,700	76,500	76,500
Employee Related Expenditures	24,200	27,900	29,200
Professional and Outside Services	10,500	18,000	18,000
Travel - In State	3,400	5,000	5,000
Travel - Out of State	0	5,000	5,000
Other Operating Expenditures	11,400	16,000	16,000
Equipment	300	0	0
AGENCY TOTAL	118,500	148,400	149,700 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Podiatry Fund	118,500	148,400	149,700
SUBTOTAL - Other Appropriated Funds	118,500	148,400	149,700
SUBTOTAL - Appropriated Funds	118,500	148,400	149,700
TOTAL - ALL SOURCES	118,500	148,400	149,700

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 located within the Arizona Department of Administration (ADOA) Central Services Bureau. The latter is funded through ADOA's operating budget.

Operating Budget

The budget includes \$149,700 and 1 FTE Position from the Podiatry Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,300 from the Podiatry Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$27,500 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. (Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)

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

Commission for Postsecondary Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0 ^{1/}
Personal Services	71,800	118,900	118,900
Employee Related Expenditures	30,800	51,700	58,700
Other Operating Expenditures	22,100	13,000	13,000
Equipment	800	0	0
OPERATING SUBTOTAL	125,500	183,600	190,600
SPECIAL LINE ITEMS			
Arizona College and Career Guide	2,100	21,300	21,300 ^{2/}
Arizona Minority Educational Policy Analysis Center	49,000	100,000	100,000 ^{2/}
Arizona Teacher Student Loan Program	176,000	176,000	426,000 ^{3/}
College-Readiness Examination Pilot Program	0	0	235,000 ^{4/}
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500 ^{5/}
Twelve Plus Partnership	24,200	130,500	130,500 ^{2/}
AGENCY TOTAL	2,696,300	2,930,900	3,422,900 ^{6/7/}
FUND SOURCES			
General Fund	1,396,800	1,396,800	1,881,800
<u>Other Appropriated Funds</u>			
Postsecondary Education Fund	1,299,500	1,534,100	1,541,100
SUBTOTAL - Other Appropriated Funds	1,299,500	1,534,100	1,541,100
SUBTOTAL - Appropriated Funds	2,696,300	2,930,900	3,422,900
Other Non-Appropriated Funds	497,000	862,900	862,900
Federal Funds	15,500	0	0
TOTAL - ALL SOURCES	3,208,800	3,793,800	4,285,800

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.

- ^{1/} Includes 0.5 OF FTE Positions funded from Special Line Items in FY 2018.
- ^{2/} The appropriations for the Arizona College and Career Guide, Arizona Minority Educational Policy Analysis Center and Twelve Plus Partnership are estimates representing all monies distributed to these programs, including balance forward, revenue and transfers, during FY 2018. The appropriations shall be adjusted as necessary to reflect actual final monies credited to the Postsecondary Education Fund. (General Appropriation Act footnote)
- ^{3/} Laws 2017, Chapter 244 changed the name of the program from the Mathematics, Science, and Special Education Teacher Student Loan Program to the Arizona Teacher Student Loan Program.
- ^{4/} Laws 2017, Chapter 304 appropriated \$235,000 from the General Fund for the College-Readiness Examination Pilot Program.
- ^{5/} In order to be eligible to receive state matching monies under the Leveraging Educational Assistance Partnership for grants to students, each participating institution, public or private, shall provide an amount of institutional matching funds that equals the amount of funds provided by the state to the institution for the Leveraging Educational Assistance Partnership. Administrative expenses incurred by the Commission for Postsecondary Education shall be paid from institutional matching monies and may not exceed 12% of the funds in FY 2018. (General Appropriation Act footnote)
- ^{6/} Any unencumbered balance remaining in the Postsecondary Education Fund established by A.R.S. § 15-1853 on June 30, 2017, and all grant monies and other revenues received by the Commission for Postsecondary Education, when paid into the State Treasury, are appropriated for the specific purposes designated by line items and for additional responsibilities prescribed in A.R.S. § 15-1851 and A.R.S. § 15-1852. (General Appropriation Act footnote)
- ^{7/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$190,600 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,000 from the Postsecondary Education Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Arizona College and Career Guide

The budget includes \$21,300 from the Postsecondary Education Fund in FY 2018 for the Arizona College and Career Guide line item. This amount is unchanged from FY 2017.

This line item funds costs associated with the Arizona College and Career Guide, which is an annual publication that lists Arizona's public and private postsecondary educational institutions. The guide describes each institution's available degree and certificate programs, course lengths, and costs of attendance.

Arizona Minority Educational Policy Analysis Center

The budget includes \$100,000 and a 0.2 FTE Position from the Postsecondary Education Fund in FY 2018 for the Arizona Minority Educational Policy Analysis Center (AMEPAC) line item. These amounts are unchanged from FY 2017.

AMEPAC promotes minority students' access to Arizona's postsecondary educational institutions.

Arizona Teacher Student Loan Program

The budget includes \$426,000 from the General Fund in FY 2018 for the Arizona Teacher Student Loan Program. This amount funds the following adjustments:

Program Expansion

The budget includes an increase of \$250,000 from the General Fund in FY 2018 to fund approximately 35 additional program participants.

The program, previously 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. Pursuant to A.R.S. § 15-1785, the MSSE program was scheduled to automatically terminate on July 1, 2017 unless legislation was enacted to extend it. Laws 2017, Chapter 244 continued the program, but changed the name to the Arizona Teacher Student Loan Program and expanded the program to teachers practicing in rural, low-income, and tribal schools.

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.

College-Readiness Examination Pilot Program

The K-12 Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 304) appropriates \$235,000 from the General Fund in FY 2018 for a one-year College-Readiness Examination Pilot Program.

The K-12 BRB requires monies in this line item to be used to provide grants to school districts and charter schools for administration of college-readiness exams to 11th grade high school students. The exam must be provided free of charge, be nationally recognized, and include tests in English, reading, mathematics and science.

The Commission for Postsecondary Education is required to submit a report summarizing the results of the pilot program, including the number of grants distributed, number of students who took an exam, the name of the exam taken, and the aggregate achievement of students who took the exam. The commission will use aggregate data reported from participating schools.

Leveraging Educational Assistance Partnership

The budget includes \$2,319,500 for the Leveraging Educational Assistance Partnership (LEAP) in FY 2018. This amount consists of:

	FY 2018
General Fund	\$1,220,800
Postsecondary Education Fund	1,098,700

These amounts are unchanged from FY 2017.

LEAP is a state and institutional partnership that provides financial assistance to students demonstrating substantial financial need. To be eligible, students must attend, on at least a half-time basis, an approved program at a properly accredited Arizona postsecondary educational institution (including public universities, public community colleges,

private collegiate institutions, and proprietary schools). The federal portion of these funds was eliminated in FY 2012. *(Please see Other Issues for more information.)*

In FY 2016, awards were provided through 44 postsecondary institutions. Of the total funding distributed, 29% went to public universities, 54% to community colleges, and 17% to private institutions.

Twelve Plus Partnership

The budget includes \$130,500 and a 0.3 FTE Position from the Postsecondary Education Fund in FY 2018 for the Twelve Plus Partnership (TPP). These amounts are unchanged from FY 2017.

TPP is an early education awareness initiative with 3 components: Best Education Practices Conference and Awards Recognition, Think College, and College Goal Sunday. Approximately 70% of this line item funds College Goal Sunday, 25% of the monies go to Best Education Practices Conference and Awards Recognition, and the remaining 5% funds Think College. Private gifts, donations of service, and corporate sponsorships support TPP.

Other Issues

This section includes information on the following topics:

- Repayment Programs
- Family College Savings Plan

Repayment Programs

The commission currently administers repayment programs for unforgiven loans from the Private Postsecondary Education Student Financial Assistance program (PFAP) and the Private Postsecondary Education Grant (PPEG) program, both of which are no longer awarding new grants. In addition, the commission administers repayment programs for unforgiven loans from the Arizona Teacher Student Loan Program, 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 10 borrowers are currently being tracked in the repayment program or will be placed in repayment once located. The commission has turned over 69 of these loans to the Attorney General for collections.

The commission may use PFAP funds to administer PPEG collections. At the end of FY 2016, the PFAP Fund had a balance of \$19,600. The commission reported it expects to use at least \$12,000 of PFAP funds in FY 2017 to identify PPEG students who have not met the loan requirements.

Pursuant to A.R.S. § 15-1855, PFAP was automatically terminated on July 1, 2016.

PPEG

Prior to FY 2011, PPEG 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 were forgiven if a student recipient earns a baccalaureate degree within 5 years. The program has not been funded since FY 2010.

The program automatically terminated on July 1, 2016. Laws 2017, Chapter 243 reinstated and modified the program by allowing grant recipients to be enrolled in either an associate degree program or a baccalaureate degree program and requiring the program to be science, technology, engineering, or math (STEM) related. The commission may only award grants to non-STEM participants if revenues in a grant cycle are not exhausted for students in STEM-related fields. There are currently no funds available to award grants.

There have been 4,475 students awarded PPEG forgivable loans since its inception in 2007. Of those recipients, 3,163 graduated with a baccalaureate degree and 32 are working to complete their degree. Of the remaining, 34 have paid in full, 9 have been forgiven, 4 are deceased, and 1,233 are reported as not enrolled at an institution and are being located to determine their enrollment or graduation status. The commission has not yet

determined any of these loans to be uncollectible and therefore, has not referred them to the Attorney General.

The commission may contract with a third-party vendor to collect outstanding PPEG debt. The commission has not yet selected a third-party vendor to collect debt, but plans to once it identifies students who did not meet loan forgiveness requirements. Once a vendor is selected, the commission is allowed to use PFAP funds to administer PPEG collections.

Prior to Chapter 243, the PPEG program was known as the Postsecondary Education Program (PEG).

Arizona Teacher Student Loan Program

There have been 275 students awarded Arizona Teacher Student Loan program forgivable loans since its inception in FY 2007. Of those recipients, 115 completed the loan requirements and had their loan forgiven, 10 have paid their loan balance in full, 42 are currently in repayment, 16 have had their loans referred to the Attorney General, 31 have finished 5-year tracking, and 61 will require tracking for up to 15 years to ensure they meet the promissory note obligations and to determine retention rates.

PDS

There have been 254 students awarded PDS forgivable loans. Of those recipients, 0 are in default. All others have completed their obligation by fulfilling the teaching requirements of the program or repaying their loan in full.

Family College Savings Plan

The Family College Savings Program (FCSP) was established pursuant to Laws 1997, Chapter 171. It enables parents to save for their child's college education in plans compatible with Internal Revenue Code § 529 (529 Plans). Monies in these plans grow tax-free, and withdrawals for qualified higher educational expenses are federal and state income tax free. FCSP operates from the proceeds of new account fees, which are currently \$15 per account. The plans are available to both residents and non-residents of the state. The commission oversees 3 FCSP providers, 2 of which have multiple investment offerings in their plans.

In 2004, A.R.S. § 15-1873 established the Family College Savings Program Trust Fund, which is a non-appropriated fund. The FCSP Trust Fund directly receives FCSP fee revenues.

Arizona Power Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	34,817,700	37,652,000	37,652,000
TOTAL - ALL SOURCES	34,817,700	37,652,000	37,652,000

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.

State Board for Private Postsecondary Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	227,700	234,500	234,500
Employee Related Expenditures	80,700	86,200	90,300
Professional and Outside Services	24,700	27,400	27,400
Travel - Out of State	500	2,000	2,000
Other Operating Expenditures	40,900	40,200	40,200
Equipment	3,000	5,800	5,800
OPERATING SUBTOTAL	377,500	396,100	400,200
SPECIAL LINE ITEMS			
Annual Leave Payout	0	0	20,800
Student Tuition Recovery Fund Deposit	600,000	0	0
AGENCY TOTAL	977,500	396,100	421,000 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board for Private Postsecondary Education Fund	977,500	396,100	421,000
SUBTOTAL - Other Appropriated Funds	977,500	396,100	421,000
SUBTOTAL - Appropriated Funds	977,500	396,100	421,000
Other Non-Appropriated Funds	283,900	277,000	277,000
TOTAL - ALL SOURCES	1,261,400	673,100	698,000

AGENCY DESCRIPTION — The board licenses and regulates 255 private postsecondary education institutions that service approximately 711,097 students annually. The board processes license applications, determines compliance, investigates complaints and violations, and takes disciplinary action on all private postsecondary institutions that offer vocational and/or degree programs. However, the board does not have jurisdiction over cosmetology, barber, real estate, or professional driving schools. In addition to regulatory duties, the board administers the Student Tuition Recovery Fund, which provides restitution to students financially injured by private postsecondary institutional closures.

Operating Budget

The budget includes \$400,200 and 4 FTE Positions from the Board for Private Postsecondary Education Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$4,100 from the Board for Private Postsecondary Education Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes \$20,800 from the Board for Private Postsecondary Education Fund in FY 2018 for an annual leave payout for the retiring Executive Director.

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$80,200 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

State Board of Psychologist Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	231,900	234,100	234,100
Employee Related Expenditures	91,900	94,400	99,600
Professional and Outside Services	15,000	44,500	44,500
Travel - In State	8,500	5,500	5,500
Travel - Out of State	1,000	5,000	5,000
Other Operating Expenditures	73,600	91,900	91,900
AGENCY TOTAL	421,900	475,400	480,600 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Psychologist Examiners Fund	421,900	475,400	480,600
SUBTOTAL - Other Appropriated Funds	421,900	475,400	480,600
SUBTOTAL - Appropriated Funds	421,900	475,400	480,600
TOTAL - ALL SOURCES	421,900	475,400	480,600
AGENCY DESCRIPTION — The board licenses and regulates psychologists and behavior analysts.			

Operating Budget

The budget includes \$480,600 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$5,200 from the Board of Psychologist Examiners Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$91,700 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

Department of Public Safety

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,907.7	1,956.7	1,945.7 ^{1/}
Personal Services	100,602,900	105,130,600	105,989,100
Employee Related Expenditures	80,383,000	83,846,700	93,069,200
Professional and Outside Services	2,462,700	2,357,800	2,357,800
Travel - In State	553,900	491,300	491,300
Travel - Out of State	485,900	266,100	266,100
Other Operating Expenditures	28,825,100	29,691,200	29,637,700
Equipment	7,227,900	6,641,700	7,341,700
OPERATING SUBTOTAL	220,541,400	228,425,400	239,152,900
SPECIAL LINE ITEMS			
ACTIC	1,153,400	1,450,000	1,450,000
Border Strike Task Force Ongoing	0	6,778,800	7,059,300
Border Strike Task Force One-Time	0	18,600,000	0
Border Strike Task Force Local Support	0	1,261,700	1,261,700 ^{2/3/4/}
GIITEM	21,100,700	22,584,300	22,254,400 ^{5/6/}
GIITEM Subaccount	2,033,200	2,390,000	2,390,000
Law Enforcement Officer Virtual Training	0	2,100,000	0
Public Safety Equipment	3,178,000	2,890,000	2,890,000
Motor Vehicle Fuel	2,448,700	5,454,600	5,454,600
Civil Air Patrol	0	150,000	150,000
Camera IT Infrastructure	0	0	500,000
Sexual Assault Kit Testing	0	500,000	1,200,000 ^{7/}
Trooper Vehicle In-Car Cameras	0	0	500,000
AGENCY TOTAL	250,455,400	292,584,800	284,262,900 ^{8/9/}
FUND SOURCES			
General Fund	91,454,500	121,195,700	109,614,200
<u>Other Appropriated Funds</u>			
Automated Fingerprint Identification System Fund	1,396,500	2,910,200	2,919,700
Automobile Theft Authority Fund	0	3,000,000	0
Concealed Weapons Permit Fund	1,060,900	3,489,000	1,420,000
Crime Laboratory Assessment Fund	772,400	870,200	870,300
Crime Laboratory Operations Fund	13,136,500	13,597,300	13,611,300
Criminal Justice Enhancement Fund	2,864,400	2,860,500	2,873,400
Deoxyribonucleic Acid (DNA) Identification System Fund	5,068,400	4,969,600	4,970,100
Drug and Gang Prevention Resource Center Fund	0	1,000,000	0
Fingerprint Clearance Card Fund	0	0	700,000
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,033,200	2,527,700	2,527,700
Highway Patrol Fund	20,397,100	24,113,100	25,474,400
Highway User Revenue Fund	96,409,200	96,006,100	99,398,700
Motorcycle Safety Fund	205,000	205,000	205,000
Parity Compensation Fund	2,115,500	2,129,400	3,422,300
Public Safety Equipment Fund	3,178,000	2,893,700	3,893,700
Risk Management Revolving Fund	1,228,100	1,263,700	1,314,200
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,236,500	1,551,800	1,634,400
State Aid to Indigent Defense Fund	626,000	700,000	700,000
State Highway Fund	7,273,200	7,301,800	8,713,500

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
SUBTOTAL - Other Appropriated Funds	159,000,900	171,389,100	174,648,700
SUBTOTAL - Appropriated Funds	250,455,400	292,584,800	284,262,900
Other Non-Appropriated Funds	42,612,300	43,318,800	42,596,800
Federal Funds	30,280,100	74,312,600	63,807,900
TOTAL - ALL SOURCES	323,347,800	410,216,200	390,667,600

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 budget includes \$239,152,900 and 1,771.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$72,749,100
Automated Fingerprint Identification System (AFIS) Fund	2,919,700
Concealed Weapons Permit Fund	1,420,000
Crime Laboratory Assessment Fund (CLAF)	870,300

Crime Laboratory Operations Fund (CLOF)	13,611,300
Criminal Justice Enhancement Fund (CJEF)	2,739,100
Deoxyribonucleic Acid (DNA) Identification System Fund	4,970,100
Fingerprint Clearance Card Fund	700,000
Highway Patrol Fund	25,176,000
Highway User Revenue Fund (HURF)	98,761,000
Motorcycle Safety Fund	205,000
Parity Compensation Fund	3,365,500
Public Safety Equipment Fund	3,700
Risk Management Revolving Fund	1,314,200
Safety Enforcement and Transportation	1,634,400

- 1/ Includes 173.8 GF FTE Positions funded from Special Line Items in FY 2018.
- 2/ Before the expenditure of any monies appropriated in FY 2018 in the Border Strike Task Force Local Support line item, the department shall submit an expenditure plan for this line item to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 3/ Of the \$1,261,700 appropriated for the Border Strike Task Force Local Support line item, \$761,700 shall be used to fund local law enforcement officer positions within the Border Strike Task Force. Any city, town, county or other entity that enters into an agreement with the department to participate in the Border Strike Task Force shall provide at least 25% of the cost of the services, and the department shall provide not more than 75% of Personal Services and Employee-Related Expenditures for each agreement or contract. The department may fund all capital-related equipment. (General Appropriation Act footnote)
- 4/ Of the \$1,261,700 appropriated for the Border Strike Task Force Local Support line item, \$500,000 shall be used for grants to cities, towns or counties for costs associated with the prosecution and imprisonment of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes. (General Appropriation Act footnote)
- 5/ Of the \$22,254,400 appropriated to the GIITEM line item, only \$1,403,400 is deposited in the GIITEM Fund established by A.R.S. § 41-1724, and is appropriated for the purposes of that section. The \$1,403,400 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. It is the intent of the legislature that this allocation will be restored to the FY 2017 level of \$2,603,400 in FY 2019. This state recognizes that states have inherent authority to arrest a person for any immigration violation. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 6/ Of the \$22,254,400 appropriated to the GIITEM line item, \$10,479,700 shall be used for 100 Department of Public Safety GIITEM personnel. The additional staff shall include at least 50 sworn Department of Public Safety positions to be used for immigration enforcement and border security and 50 Department of Public Safety positions to assist GIITEM in various efforts, including:
 - 1) Strict enforcement of all federal laws relating to illegal aliens and arresting illegal aliens.
 - 2) Responding to or assisting any county sheriff or attorney in investigating complaints of employment of illegal aliens.
 - 3) Enforcing Arizona's law known as the Legal Arizona Workers Act, strict enforcement of Arizona's SB 1070, Arizona's "Support Our Law Enforcement and Safe Neighborhoods Act", investigating crimes of identity theft in the context of hiring illegal aliens and the unlawful entry into the country.
 - 4) Taking strict enforcement action.
 Any change in the GIITEM mission or allocation of monies shall be approved by the Joint Legislative Budget Committee. The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review before expending any monies not identified in the department's previous expenditure plans. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 7/ The \$1,200,000 appropriated for Sexual Assault Kit Testing in FY 2018 is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations through June 30, 2019. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 9/ Any monies remaining in the Department of Public Safety Joint Account on June 30, 2018 revert to the funds from which they were appropriated. The reverted monies shall be returned in direct proportion to the amounts appropriated. (General Appropriation Act footnote)

Infrastructure Fund (SETIF) DPS Subaccount
State Highway Fund 8,713,500

These amounts fund the following adjustments:

Salary Adjustment

The budget includes an increase of \$1,144,600 in FY 2018 for a 3% salary adjustment to all non-highway patrol civilian employees in DPS. In the FY 2017 budget, all sworn officers and Highway Patrol civilian staff received a 3% salary increase. This amount consists of:

AFIS Fund 7,400
Concealed Weapons Permit Fund 20,700
Parity Compensation Fund 1,116,500

PSPRS Retirement Adjustment

The budget includes an increase of \$6,549,800 in FY 2018 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate. This amount consists of:

General Fund 1,759,600
Concealed Weapons Permit Fund 100
CLAF 100
CLOF 14,000
CJEF 12,900
DNA Identification System Fund 500
Highway Patrol Fund 879,700
HURF 3,392,600
Parity Compensation Fund 94,700
Risk Management Revolving Fund 50,500
SETIF DPS Subaccount 66,000
State Highway Fund 279,100

These monies fund an increase in the DPS employer contribution rate from 77.96% in FY 2017 to 86.97% in FY 2018.

Remove One-Time Funding

The budget includes a decrease of \$(53,500) from the General Fund in FY 2018 for the elimination of one-time monies for the hiring of a consultant to help DPS address any consolidation or programmatic issues associated with the transfer of the Moving Truck Violation Enforcement program from the Department of Weights and Measures to DPS.

Crime Laboratory Equipment Replacement

The budget includes an increase of \$700,000 from the Fingerprint Clearance Card Fund in FY 2018 for crime laboratory equipment replacement. The equipment to be replaced in FY 2018 includes 2 Gas Chromatograph/Triple Quad Mass Spectrometers and 3 Gas Chromatograph/Mass Spectrometers. The FY 2018

Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 303) modifies statute to allow appropriated expenditures from the Fingerprint Clearance Card Fund for the purpose of purchasing crime laboratory equipment.

Statewide Adjustments

The budget includes an increase of \$2,386,600 in FY 2018 for statewide adjustments. This amount consists of:

General Fund 718,600
AFIS Fund 2,100
Concealed Weapons Permit Fund 10,200
Highway Patrol Fund 481,600
Parity Compensation Fund 24,900
SETIF DPS Subaccount 16,600
State Highway Fund 1,132,600

(Please see the Agency Detail and Allocations section.)

ACTIC

The budget includes \$1,450,000 in FY 2018 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 2017.

The FY 2018 Criminal Justice BRB continues to notwithstand statute to allow DPS to expend monies from the State Aid to Indigent Defense Fund for ACTIC operating expenses.

Created in FY 2005, ACTIC is a joint effort between federal, state, and local law enforcement agencies to combat terrorism, gang violence, and other crimes through information sharing. The salaries of participants are funded by their respective agencies, but DPS pays for the operational costs of the 40,000 square foot building in which ACTIC is housed. These monies fund those costs.

Border Strike Task Force Ongoing

The budget includes \$7,059,300 and 37 FTE Positions in FY 2018 for the Border Strike Task Force (BSTF). These amounts consist of:

General Fund 7,054,700
Parity Compensation Fund 4,600

These amounts fund the following adjustments:

Salary Adjustment

The budget includes an increase of \$4,600 from the Parity Compensation Fund in FY 2018 for a 3% salary adjustment to all non-highway patrol civilian employees in DPS.

PSPRS Retirement Adjustment

The budget includes an increase of \$219,800 from the General Fund in FY 2018 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate.

Statewide Adjustments

The budget includes an increase of \$56,100 from the General Fund in FY 2018 for statewide adjustments.

Unused FTE Positions

The budget includes a decrease of (11) FTE Positions from the General Fund in FY 2018 for the elimination of unused FTE Positions. This adjustment aligns the FTE authority with available funding. The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) provided funding for the establishment of a BSTF within DPS along with 48 FTE Positions. The BSTF was initially established in September 2015 through the reallocation of 56 sworn officers from DPS’ Southern Narcotics and Canine Districts. The monies in this line item allowed for the hiring of an additional 30 sworn officer positions and 7 support staff. Given 48 authorized FTE Positions and 37 new staff, the budget deletes the (11) in excess FTE authority.

Of the 30 sworn officer positions, 17 are exclusively dedicated to the BSTF, 11 patrol the highways of the border counties as part of DPS’ Highway Patrol Division, and 2 are pilots. The 2 pilots operate an existing King Air plane that DPS acquired through the Federal 1033 Surplus program and a helicopter purchased with funds from the BSTF One-Time line item. Both will provide support to the BSTF and surveillance of criminal activity along the border.

At its June 16, 2016 meeting, the Joint Legislative Budget Committee gave a favorable review to the DPS expenditure plan for the BSTF Ongoing line item.

The BSTF is a multi-agency law enforcement task force that targets drug and human trafficking organizations and activities along the Arizona-Mexico border.

Border Strike Task Force One-Time

The budget includes no funding in FY 2018 for the initial one-time costs of the BSTF. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(18,600,000) in FY 2018 for the elimination of one-time funding. This amount consists of:

General Fund	(14,600,000)
Automobile Theft Authority Fund	(3,000,000)
Drug and Gang Prevention Resource Center Fund	(1,000,000)

The FY 2017 General Appropriation Act provided funding for one-time costs of the newly-established BSTF within DPS. These monies were used for the purchase of patrol vehicles, a helicopter, surveillance equipment, officer weapons, safety equipment, radios, cameras, scopes, and other equipment necessary for the operation of the BSTF. The FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) notwithstanding statute to allow DPS to expend monies from the Automobile Theft Authority Fund and Drug and Gang Prevention Resource Center Fund for costs associated with the BSTF. *(Please see the Automobile Theft Authority narrative for more information on the Automobile Theft Authority Fund.)*

At its June 16, 2016 meeting, the Joint Legislative Budget Committee gave a favorable review to the DPS expenditure plan for the BSTF One-Time line item. The plan included funding for a new twin-engine helicopter, a communication “master site,” surveillance equipment for an existing King Air airplane, 38 law enforcement vehicles, Tri-Band radios for Highway Patrol officers in the 4 southern Highway Patrol Districts and new BSTF officers, improvements to an airplane hangar in Tucson, public safety equipment, canine units, and a contingency set-aside for cost overruns. The favorable review included the following provisions requiring DPS to:

- Report back to the Committee regarding the amount and plans for proceeds that are received as the result of the sale of an existing single-engine helicopter that will be replaced by the new twin-engine helicopter. On May 11, 2017, DPS reported that an existing helicopter was traded-in for a credit of \$887,700 towards the purchase of the new helicopter.
- Report on the utilization of the contingency set-aside and provide for review a plan for how monies will be allocated if DPS chooses to utilize them for anything other than what was reviewed.
- Prepare for review any modification to the expenditure plan that would result in the purchase of an airplane hangar.

Border Strike Task Force Local Support

The budget includes \$1,261,700 from the General Fund in FY 2018 for the costs of BSTF Local Support. These amounts are unchanged from FY 2017.

The BSTF is a multi-agency task force established to target drug and human trafficking organizations and activities along the Arizona-Mexico border. Of the \$1,261,700 total appropriation, \$761,700 shall be used to fund 75% of the costs for 8 local law enforcement officers that will participate in the BSTF. The participating local law enforcement agency will be responsible for providing a 25% match to these amounts. The remaining \$500,000 shall be used for grants to local governments for the prosecution and imprisonment of individuals that are charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

At the September 21, 2016 meeting of the JLBC, the Committee provided a favorable review of DPS' expenditure plan for the BSTF Ongoing line item. The expenditure plan provides \$761,700 to fund 75% of the cost of 5 sheriff's deputies from the Cochise County Sheriff's Office and 3 sheriff's deputies from the Pima County Sheriff's Office that will serve as part of the BSTF. Additionally, the plan allocates the remaining \$500,000 evenly to each of the 4 border county sheriffs for expenses incurred as a result of the arrest of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crime.

GIITEM

The budget includes \$22,254,400 and 136.8 FTE Positions in FY 2018 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). This amount consists of:

General Fund	22,064,500
GIITEM Border Security and Law Enforcement Subaccount	137,700
Parity Compensation Fund	52,200

These amounts fund the following adjustments:

Salary Adjustment

The budget includes an increase of \$52,200 from the Parity Compensation Fund in FY 2018 for a 3% salary adjustment to all non-highway patrol civilian employees in DPS.

Sexual Assault Kit Shift

The budget includes a decrease of \$(1,200,000) from the General Fund in FY 2018 for a one-time reduction. To allow for this shift, the local gang and immigration enforcement grants allocation was reduced from \$2,603,400 to \$1,403,400 in FY 2018. Prior to this shift, statute required the first \$1,600,000 in local gang and immigration enforcement grant monies to be allocated to the Maricopa County Sheriff's Office.

The FY 2018 Criminal Justice BRB eliminates the statutory \$1,600,000 allocation to the Maricopa County Sheriff's Office and, as session law, allocates \$400,000 from the Maricopa County Sheriff's Office distribution to the Pima County Sheriff's Office. A footnote in the 2018 General Appropriation Act clarified that it is the intent of the Legislature to restore the \$1,200,000 to local gang and immigration enforcement grant portion of the GIITEM line in FY 2019.

PSPRS Retirement Adjustment

The budget includes an increase of \$633,000 from the General Fund in FY 2018 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate.

Statewide Adjustments

The budget includes an increase of \$184,900 from the General Fund in FY 2018 for statewide adjustments.

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$9,771,300 for gang enforcement, investigation, and interdiction; 2) \$10,479,700 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) \$1,403,400 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.

As noted above, the FY 2018 Criminal Justice BRB modified permanent statute to eliminate the \$1,600,000 allocation from local immigration enforcement grant monies to a county with more than 3,000,000 people (Maricopa County). Additionally, the bill prohibits Maricopa County from receiving any monies from the fund. Permanent law continues to allocate \$500,000 in

revenues to a county with less than 500,000 people but more than 300,000 people (Pinal County). Additionally, the FY 2018 Criminal Justice BRB allocates \$400,000 one-time to the Pima County Sheriff's Office in FY 2018. The remaining \$503,400 may be used for agreements with cities, counties, and other entities at a 3:1 match rate. Pinal County is excluded from the matching requirements.

A.R.S. § 41-1724C requires DPS to distribute the monies in the GIITEM Fund as soon after July 1 of every year as practicable. Prior to distribution, DPS must submit an expenditure plan to JLBC for review regarding any monies not identified in the previous expenditure plans. *(Please see Table 3 in the Other Issues section for more information on actual expenditures.)*

GIITEM Subaccount

The budget includes \$2,390,000 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2018 for the GIITEM Subaccount, to be used for equipment and supplies for border security. This amount is unchanged from FY 2017.

The GIITEM Border Security and Law Enforcement Subaccount receives \$4 of a \$13 criminal fee. These revenues are estimated to total \$2,266,400 in FY 2018. 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 2018 Criminal Justice BRB continued the requirement that DPS, submit to the JLBC for review, an expenditure plan for the GIITEM Subaccount for the coming fiscal year.

At its June 16, 2016 meeting, the JLBC gave a favorable review to the proposed GIITEM Subaccount expenditure plan for FY 2017. The plan includes \$500,000 for detention liaison officers, \$490,000 for county sheriff deputies and municipal police department officers to augment the GIITEM Task Force's border district unit, \$350,000 for the Pima County Border Crimes Unit, and \$1,050,000 for grants to county sheriffs for border security. *(Please see Table 3 in the Other Issues section for more information on actual expenditures.)*

Law Enforcement Officer Virtual Training

The budget includes no funding in FY 2018 for Law Enforcement Officer Virtual Training. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,100,000) from the Concealed Weapons Permit Fund in FY 2018 for the elimination of one-time funding for Law Enforcement Officer Virtual Training.

The FY 2017 budget included a footnote that required the virtual training equipment procured by DPS to do all of the following:

- Have the ability to display characters and scenario content simultaneously across an at least 300 degree screen environment with which the trainee can engage.
- Accurately replicate real-world ballistic characteristics of a projectile in flight.
- Be equipped with transducers to recreate sound vibrations.
- Include a stress component that includes a wireless device capable of delivering adjustable electric impulses.

The footnote also required DPS to make the equipment available to all law enforcement agencies in the state without assessing a fee or charge.

The FY 2017 Criminal Justice BRB notwithstanding the statutory expenditure restrictions of the Concealed Weapons Permit Fund to allow DPS to expend monies to procure law enforcement officer virtual training equipment.

This line item provided one-time funding for the purchase of virtual training equipment for law enforcement officers.

Public Safety Equipment

The budget includes \$2,890,000 from the Public Safety Equipment Fund in FY 2018 to equip DPS officers. This amount is unchanged from FY 2017.

The Public Safety Equipment Fund receives \$4 of a \$13 surcharge on fines, violations and penalties for criminal offenses and civil motor vehicle violations. In addition, DPS receives another \$4 of the surcharge if its officer issued the citation. These revenue sources are subject to appropriation.

Additionally, the fund receives the first \$1,200,000 collected from an assessment of up to \$1,500 on driving under the influence (DUI) offenses. This \$1,200,000 is not subject to appropriation.

The Public Safety Equipment line item monies can be used to purchase vehicles, protective armor, electronic stun devices and other safety equipment.

Motor Vehicle Fuel

The budget includes \$5,454,600 in FY 2018 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 2017.

The Motor Vehicle Fuel line item centralizes monies appropriated to DPS for motor vehicle fuel. In addition to \$2,448,700 in Motor Vehicle Fuel line item monies expended in FY 2016, DPS expended \$560,900 from non-appropriated monies for fuel from other parts of the DPS budget in FY 2016.

Civil Air Patrol

The budget includes \$150,000 from the General Fund in FY 2018 for funding of the Civil Air Patrol (CAP). This amount is unchanged from FY 2017.

Monies in this line item are used to partially offset the costs of operations and maintenance of aircraft used by CAP to aid in search and rescue and other emergency missions.

State funding for CAP goes back to at least FY 1953 when the Arizona Department of Civil Air Patrol was created by Laws 1952, Chapter 38. In 1970, a court decision required the state to shift funding for CAP to a line item which was first included in the Arizona Department of Aeronautics, then the Arizona Department of Transportation, and finally the Department of Emergency and Military Affairs (DEMA). Prior to the FY 2017 appropriation, CAP last received state funding in FY 2008 in DEMA's budget in the amount of \$54,700.

Camera IT Infrastructure

The budget includes \$500,000 from PSEF in FY 2018 for Camera IT Infrastructure. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$500,000 from PSEF in FY 2018 for Camera IT Infrastructure. These monies will help DPS to make necessary upgrades to their IT infrastructure to allow for the storage of video and other data in the department's record management system.

DPS' record management system is used to create and manage reports and cases and maintains a master person index that links persons involved in criminal incidents to incident reports.

Sexual Assault Kit Testing

The budget includes \$1,200,000 from the General Fund in FY 2018 for Sexual Assault Kit Testing. This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$700,000 from the General Fund in FY 2018 for the testing of the estimated, remaining 1,432 untested sexual assault kits statewide.

The monies in this line item will allow DPS to provide one-time funding to local governments for the testing of a backlog of sexual assault kits and will provide funding for DPS to input information derived from the testing of these kits into the national Combined DNA Index System database.

A footnote in the FY 2017 General Appropriation Act required DPS to provide an expenditure plan to the JLBC for review regarding the \$500,000 in General Fund monies appropriated to DPS one-time for the testing of sexual assault kits in FY 2017. The expenditure plan was also required to include the number of sexual assault kits in the backlog and the amounts and recipients of federal monies for the testing of sexual assault kits by jurisdiction.

At its December 14, 2016 meeting, the JLBC gave a favorable review to the proposed Sexual Assault Kit line item expenditure plan which allocated \$385,000 to contract with a third party to test 625 outstanding kits and \$115,000 for administrative costs that DPS incurs while processing the kits and entering the data into their DNA database. Also included in the submission, DPS reported that there was a backlog of 6,424 sexual assault

kits statewide. DPS also reported that after the expenditure of all existing FY 2017 and prior year state and Federal Funds, there would remain a backlog of 1,432.

The budget includes a net increase of \$700,000 from the General Fund to allow for the testing of all remaining untested sexual assault kits. This change reflects the elimination of the \$(500,000), one-time, FY 2017 General Fund appropriation, and the appropriation of \$1,200,000 in one-time monies from the General Fund in FY 2018. A footnote in the FY 2018 General Appropriation Act makes the FY 2018 \$1,200,000 General Fund appropriation non-lapsing through June 30, 2019.

Trooper Vehicle In-Car Cameras

The budget includes \$500,000 from PSEF in FY 2018 for Trooper Vehicle In-Car Cameras. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$500,000 from PSEF in FY 2018 for Trooper Vehicle In-Car Cameras. These monies will allow DPS to purchase 75 in-car cameras to replace existing aging cameras in patrol and k-9 unit vehicles.

Other Issues

Additional Legislation

HURF Cap

The FY 2018 Criminal Justice BRB continues to notwithstand the statutory spending provisions for HURF allowing DPS to spend more than the statutory cap of \$10.0 million.

GIITEM Subaccount Expenditures

The FY 2018 Criminal Justice BRB continues to notwithstand statute to allow \$137,700 from the GIITEM Subaccount to be expended for costs related to an increase in the PSPRS employer contribution rate.

DPS Forensics Fund

The FY 2018 Criminal Justice BRB establishes the DPS Forensics Fund by eliminating and combining the purposes and revenues for the AFIS Fund, DNA Identification System Fund, CLAF, and CLOF. The BRB sets an effective date of July 1, 2018 for these changes.

PSEF Revenue Shift

The FY 2018 Criminal Justice BRB requires DUI fine revenues over \$1.2 million, attributable to PSEF, to be deposited directly into the General Fund. Statute caps the amount of DUI fine revenues that DPS can retain in PSEF at the \$1.2 million level with the General Fund receiving any revenues above that amount. Prior to this change, DUI fine revenues above the \$1.2 million amount were statutorily required to be deposited into PSEF which necessitated DPS making an annual transfer of any excess revenues to the General Fund. The FY 2018 Criminal Justice BRB eliminates the need for DPS to transfer excess DUI fine revenues to the General Fund as those monies would be deposited directly.

Long-Term Budget Impacts: HURF Funding

The budget continues the previously approved \$60.0 million HURF shift in FY 2018. There are 2 components to the HURF shift.

First, the FY 2015 budget permanently reduced HURF funding of DPS Highway Patrol expenses from \$119.3 million to \$89.3 million and backfilled the reduction with a commensurate amount of General Fund monies. This \$30.0 million in "freed up" funds was dedicated 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 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)

Beneficiaries	Increase	FY 2018 Total
Cities	\$16.0 ^{1/}	\$426.3
Counties	10.0	265.6
Controlled Access	4.0 ^{2/}	105.6
State Highway Construction	0.0	82.9
Total	\$30.0	\$880.4

^{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 FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues this \$30.0 million shift in FY 2018.

The second component of the HURF shift was addressed on a one-time basis in the FY 2017 Revenue BRB. The legislation appropriated \$30.0 million in one-time General Fund monies that were allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. In addition to the previously mentioned permanent \$30.0 million HURF shift, the new \$30.0 million effectively held local governments harmless in FY 2017 for the \$119.2 million that was initially appropriated to DPS from HURF in FY 2014 prior to the HURF shift. *(Please see the Highway User Revenue Fund Analysis section of the Arizona Department of Transportation narrative for more information.)*

The FY 2018 Revenues BRB (Laws 2017, Chapter 312) continues the \$60.0 million HURF shift in FY 2018. The one-time \$30.0 million General Fund deposit is replaced by a FY 2018 appropriation of \$30.0 million from the Highway Expansion and Extension Loan Program (HELP) Fund. These monies will be allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. Monies in the HELP Fund are used to provide loans to state, local, and tribal entities for eligible transportation projects. Due to the low interest rate environment, eligible governmental entities have not made requests for loans from the HELP Fund leaving the estimated \$60.0 million FY 2017 ending fund balance uncommitted.

The FY 2018 Revenues BRB appropriated \$30.0 million from the HELP Fund again in FY 2019 for local HURF. Along with the permanent \$30.0 million distribution from FY 2015, local governments would be held harmless again in FY 2019.

The FY 2018 Revenues BRB also requires \$60.0 million to be distributed directly to local HURF in FY 2020 to continue to hold local governments harmless. This \$60.0 million would consolidate the permanent \$30.0 million local distribution originated in the FY 2015 budget and the \$30.0 million one-time local distribution designated in the FY 2017 budget.

Given that the HELP fund balance is projected to be depleted at the end of FY 2019, the FY 2018 Revenues

BRB includes a legislative intent statement regarding FY 2020. The Legislature intends to reduce the DPS HURF appropriation by \$(30.0) million in FY 2020 and replace those monies with a \$30.0 million General Fund appropriation. The FY 2020 column of the enacted FY 2018 budget's 3-year spending plan displays this General Fund appropriation as ongoing.

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	96.0	7.3	103.3
2018	99.4	8.7	108.1

Automation Projects Fund - Arizona Criminal Justice Information System

The budget includes a FY 2018 transfer of \$2.3 million to the Arizona Department of Administration for upgrades to the Arizona Criminal Justice Information System (ACJIS). This amount consists of:

Concealed Weapons Permit Fund	1,000,000
Fingerprint Clearance Card Fund	1,343,000

The upgrades to ACJIS are estimated to cost \$7.5 million over 3 years. Funding for the second and third years of the upgrade have not yet been appropriated. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

Automation Projects Fund - Microwave System Upgrades

The budget includes a FY 2018 transfer of \$2.5 million to the Arizona Department of Administration for upgrades to the statewide Microwave Radio System. This amount consists of:

Concealed Weapons Permit Fund	1,500,000
PSEF	1,000,000

In CY 2007, DPS began upgrading the statewide Microwave Radio System from analog to digital technology which allows state agencies to communicate with officers in the field. There are 3 loops made up of many radio towers that comprise the microwave radio system backbone, of which, the southern loop was completed in FY 2011 and the western loop will be completed in FY 2018. This appropriation will help fund an estimated \$16.2 million in remaining upgrades to the northern loop. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

Table 3

**State Immigration Enforcement
Assistance to Local Governments**

DPS GIITEM Local Immigration Enforcement Grant Expenditures 1/

Agency	FY 2013		FY 2014		FY 2015		FY 2016		FY 2017		FY 2018	
	Actual	Estimate 2/										
Pima County Sheriff's Department	-	-	-	-	-	-	-	-	-	-	-	400,000
Phoenix Police Department	-	-	-	-	-	-	-	-	-	-	-	-
Border Detention Liaison Officers (See Chart Below)	-	-	-	-	-	-	-	-	-	-	-	-
Border County Officers (See Chart Below)	-	-	-	-	-	-	-	-	-	-	-	-
Maricopa County Sheriff's Office	\$1,600,000	-	1,600,000	-	1,600,000	-	1,600,000	-	1,600,000	-	-	-
DPS Expenditures in Support of Local Grants	327,900	-	428,600	-	131,700	-	413,800	-	503,400	-	-	503,400
Pinal County Sheriff's Department	500,000	-	500,200	-	500,000	-	500,000	-	500,000	-	-	500,000
TOTAL	\$2,427,900	\$2,528,800	\$2,528,800	\$2,528,800	\$2,231,700	\$2,513,800	\$2,513,800	\$2,513,800	\$2,603,400	\$2,603,400	\$1,403,400	\$1,403,400

Year of Appropriation of Funding

Agency	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016		FY 2017		FY 2018	
	Actual	Estimate 3/	Estimates 4/	Estimate 5/	Estimate 5/	Estimate 6/	Estimate 6/							
Cochise County Sheriff's Office	189,300	-	363,100	-	44,100	-	44,100	-	41,100	89,200	89,200	-	-	
Graham County Sheriff's Office	2,238,600	-	2,165,700	-	91,900	-	91,900	-	86,100	87,300	87,300	-	-	
Maricopa County Sheriff's Office	-	-	-	-	58,700	-	58,700	-	35,200	47,700	47,700	-	-	
Pima County Sheriff's Office	-	-	-	-	24,800	-	24,800	-	37,400	-	-	52,100	52,100	
Pinal County Sheriff's Office	-	-	-	-	35,800	-	35,800	-	205,000	238,300	238,300	-	-	
Santa Cruz County Sheriff's Office	-	-	-	-	205,400	-	205,400	-	205,000	238,300	238,300	-	-	
Yuma County Sheriff's Office	-	-	-	-	495,500	-	495,500	-	445,300	500,000	500,000	-	-	
Department of Corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	\$397,000	\$401,000	\$401,000	\$401,000	\$495,500	\$445,300	\$495,500	\$445,300	\$445,300	\$500,000	\$500,000	\$515,000	\$515,000	

Table 3 (Continued)

	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate 4/	FY 2017 Estimate 5/	FY 2018 Estimate 6/
Border County Officers 3/						
Benson Police	\$63,000	\$36,300	\$0	-	-	-
Cochise County Sheriff's Office	-	-	41,600	100,500	191,600	201,900
Coolidge Police	62,900	66,200	44,300	28,600	64,200	74,500
Douglas Police	124,800	102,600	115,000	-	-	-
Eloy Police	-	-	-	-	56,400	-
Oro Valley Police	54,800	47,300	63,300	62,500	66,700	77,000
Pinal County Sheriff's Office	45,700	89,700	-	-	-	-
San Luis Police	-	-	-	-	56,400	66,700
Somerton Police	-	-	-	22,300	44,500	54,900
Yuma County Sheriff's Office	-	47,900	56,100	-	-	-
Unallocated	-	-	-	-	10,200	-
Total	\$351,200	\$390,000	\$320,300	\$213,900	\$490,000	\$475,000
Border Security and Law Enforcement Grants 3/						
Apache County Sheriff's Office	-	\$11,600	\$11,500	\$12,000	\$70,000	\$70,000
Cochise County Sheriff's Office	-	20,800	20,900	500,000	70,000	70,000
Coconino County Sheriff's Office	-	-	-	-	70,000	70,000
Gila County Sheriff's Office	-	8,400	8,600	10,000	70,000	70,000
Graham County Sheriff's Office	-	-	-	9,300	70,000	70,000
Greenlee County Sheriff's Office	-	-	1,700	2,000	70,000	70,000
La Paz County Sheriff's Office	-	3,200	3,300	3,500	70,000	70,000
Maricopa County Sheriff's Office	-	627,700	629,400	100,000	70,000	70,000
Mohave County Sheriff's Office	-	32,200	32,500	33,000	70,000	70,000
Navajo County Sheriff's Office	-	16,900	17,300	18,000	70,000	70,000
Pima County Sheriff's Department	-	156,600	158,900	50,000	70,000	70,000
Pinal County Sheriff's Office	-	61,100	62,800	100,000	70,000	70,000
Santa Cruz Sheriff's Office	-	7,500	7,900	36,800	70,000	70,000
Yavapai County Sheriff's Office	-	33,600	34,000	35,000	70,000	70,000
Yuma County Sheriff's Office	-	-	33,400	112,000	70,000	70,000
Total	\$0	\$979,600	\$1,022,200	\$1,021,600	\$1,050,000	\$1,050,000

GIITEM Subaccount Expenditures 7/8/9/10/11/12/

Agency	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate 4/	FY 2017 Estimate 5/	FY 2018 Estimate 6/
Pima County Sheriff	\$500,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
General Fund Repayment	-	-	-	-	-	-
Border Detention Liaison Officers (See Chart Above)	397,000	401,000	495,500	495,500	500,000	515,000
Border County Officers (See Chart Above)	351,200	390,000	320,300	320,300	490,000	475,000
Border Security and Law Enforcement Grants (See Chart Above)	0	979,600	1,022,200	1,022,200	1,050,000	1,050,000
TOTAL	\$1,248,200	\$2,120,600	\$2,188,000	\$2,030,800	\$2,390,000	\$2,390,000

Table 3 (Continued)

Border Strike Task Force Local Support 13/14/15/

Agency	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Cochise County Sheriff	-	-	-	-	\$601,100	\$642,700
Pima County Sheriff	-	-	-	-	410,600	452,300
Santa Cruz County Sheriff	-	-	-	-	125,000	166,700
Yuma County Sheriff	-	-	-	-	125,000	-
TOTAL	-	-	-	-	\$1,261,700	\$1,261,700

County Attorney Immigration Enforcement Distributions 16/17/

Agency	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Maricopa County Attorney	\$200,000	\$200,000	-	-	-	-
Maricopa County Sheriff	500,000	500,000	-	-	-	-
Pima County Attorney	97,687	97,687	97,687	-	-	-
Pima County Sheriff	97,687	97,687	-	-	-	-
Pinal County Attorney	37,447	37,447	37,447	-	-	-
Pinal County Sheriff	37,447	37,447	-	-	-	-
Yavapai County Attorney	21,030	21,030	21,030	-	-	-
Yavapai County Sheriff	21,030	21,030	-	-	-	-
Mohave County Attorney	19,949	19,949	19,949	-	-	-
Mohave County Sheriff	19,949	19,949	-	-	-	-
Yuma County Attorney	19,507	19,507	19,507	-	-	-
Yuma County Sheriff	19,507	19,507	19,507	-	-	-
Cochise County Attorney	13,089	-	-	-	-	-
Cochise County Sheriff	13,089	-	-	-	-	-
Coconino County Attorney	13,396	-	-	-	-	-
Coconino County Sheriff	13,396	13,396	-	-	-	-
Navajo County Attorney	10,708	10,708	-	-	-	-
Navajo County Sheriff	10,708	-	-	-	-	-
Apache County Attorney	7,127	7,127	7,127	-	-	-
Apache County Sheriff	7,127	-	7,127	-	-	-
Gila County Attorney	5,341	5,341	-	-	-	-
Gila County Sheriff	5,341	-	-	-	-	-
Santa Cruz County Attorney	4,726	4,726	-	-	-	-
Santa Cruz County Sheriff	4,726	-	-	-	-	-
Graham County Attorney	\$3,709	-	-	-	-	-
Graham County Sheriff	3,709	-	-	-	-	-
La Paz County Attorney	2,042	2,042	2,042	-	-	-
La Paz County Sheriff	2,042	-	-	-	-	-
Greenlee County Attorney	841	-	-	-	-	-
Greenlee County Sheriff	841	-	-	-	-	-
Unallocated	-	236,793	981,777	-	-	-
TOTAL	\$1,213,200	\$1,213,200	\$1,213,200	\$0	\$0	\$0

- 1/ Funded from non-lapsing \$1.4 million General Fund appropriation, which is part of a \$22.3 million total GIITEM General Fund appropriation to DPS in FY 2018. The FY 2018 General Appropriation Act includes a footnote that clarifies that it is the intent of the Legislature to increase this appropriation in FY 2019 to the previous \$2.6 million level. 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. The FY 2018 Criminal Justice Budget Reconciliation Bill eliminated the Maricopa County distribution and permanently prohibited any monies from being allocated to the Maricopa County Sheriff. The bill also included a one-time distribution of \$400,000 to the Pima County Sheriff's Office.
- 2/ Estimates provided by DPS.
- 3/ Funding for the Detention Liaison Officer, Border County Officers, and Border Security and Law Enforcement Grants is provided from the GIITEM Subaccount.
- 4/ FY 2016 allocations for the Detention Liaison Officer, Border County Officers, and Border Security and Law Enforcement grants are estimates as DPS had not provided specific grantee information at the time this was published.
- 5/ FY 2017 GIITEM Subaccount amounts reflect allocations from the DPS expenditure plan as reviewed at the June 16, 2016 meeting of the JLBC.
- 6/ FY 2018 GIITEM Subaccount amounts reflect allocations from the DPS expenditure plan as reviewed at the June 20, 2017 meeting of the JLBC.
- 7/ Initially funded from a \$2.1 million GIITEM Fund appropriation in FY 2012. Laws 2011, Chapter 308 created a \$13 surcharge on criminal fines and penalties and civil motor vehicle violations, \$4 of which is to be deposited into the GIITEM Fund Border Security and Law Enforcement Subaccount. These revenues totaled \$2,266,400 in FY 2016. 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.
- 8/ 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.
- 9/ As required by Laws 2014, Chapter 12, JLBC reviewed DPS' FY 2015 GIITEM Subaccount expenditure plan on June 19, 2014.
- 10/ As required by Laws 2015, Chapter 17, JLBC reviewed DPS' FY 2016 GIITEM Subaccount expenditure plan on June 18, 2015.
- 11/ As required by Laws 2016, Chapter 119, JLBC reviewed DPS' FY 2017 GIITEM Subaccount expenditure plan on June 16, 2016.
- 12/ As required by Laws 2017, Chapter 303, JLBC reviewed DPS' FY 2018 GIITEM Subaccount expenditure plan on June 20, 2017.
- 13/ Laws 2016, Chapter 117 provided initial funding for the Border Strike Task Force (BSTF) that was established within DPS in September 2015. Included in the funding was \$1,261,700 from the General Fund in FY 2017 for the BSTF Local Support line item which provided funding for grants to local participants in BSTF and for the reimbursement of prosecution and jail costs incurred by local governments as a result of BSTF activities. This funding was continued in FY 2018.
- 14/ As required by Laws 2016, Chapter 117, JLBC reviewed DPS' FY 2017 BSTF Local Support expenditure plan on September 21, 2016.
- 15/ As required by Laws 2017, Chapter 303, JLBC reviewed DPS' FY 2018 BSTF Local Support expenditure plan on June 20, 2017.
- 16/ Funded by a General Fund appropriation.
- 17/ Funding for this line item was not continued in FY 2016.
- 18/ 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 in a county with a population of 2,000,000 or more persons. The FY 2014 distribution to a County Sheriff in a county with a population of 2,000,000 or more was returned pursuant to a court order. With JLBC approval, the remaining monies could be distributed to County Attorneys and County Sheriffs of counties with a population 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 expand 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. The initial plan as approved at the December 17, 2014 meeting of the JLBC allocated all but \$281,800 of the \$1,213,200 appropriation. Subsequent to the meeting, the \$500,000 allocation to the Maricopa County Sheriff's Office was returned due to a court order resulting in a total of \$781,800 in unallocated funds.
- 19/

Public Safety Personnel Retirement System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
SPECIAL LINE ITEMS			
EORP Fund Deposit	5,000,000	5,000,000	5,000,000 ^{1/2/}
Prescott Fire Employer Group Deposit	1,000,000	1,000,000	1,000,000 ^{3/}
AGENCY TOTAL	6,000,000	6,000,000	6,000,000
FUND SOURCES			
General Fund	6,000,000	6,000,000	6,000,000
SUBTOTAL - Appropriated Funds	6,000,000	6,000,000	6,000,000
Other Non-Appropriated Funds	11,290,800	11,212,000	11,255,900
TOTAL - ALL SOURCES	17,290,800	17,212,000	17,255,900

AGENCY DESCRIPTION — The Public Safety Personnel Retirement System (PSPRS) provides retirement, survivors, health, and disability benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters. In addition, PSPRS staff administers the Correctional Officers Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP), which provide the same benefits to specified populations at the state and local level. PSPRS is not subject to appropriation. The EORP was closed to new enrollees as of January 1, 2014, at which time newly-elected officials are to be enrolled in the Elected Officials' Defined Contribution Retirement System (EODC System).

EORP Fund Deposit

The budget includes \$5,000,000 from the General Fund in FY 2018 as part of the closure of the Elected Officials' Retirement Plan (EORP). This amount is unchanged from FY 2017. (See the FY 2017 Appropriations Report and the Consolidated Retirement Report section in this Appropriations Report for more information.)

Prescott Fire Employer Group Deposit

The budget includes \$1,000,000 from the General Fund in FY 2018 for deposit into the employer account of the Prescott Fire Department group. This amount is unchanged from FY 2017.

In June 2013, 19 firefighters employed by the Prescott Fire Department died in the line of duty while fighting the Yarnell Hill Fire. Of the 19, 6 were classified as permanent employees and were enrolled in PSPRS. As such, their survivors qualify to receive ongoing payments equal to 100% of the employees' average monthly wages, including overtime. The increased liability resulting from these benefit payments is funded from the employer

account of the Prescott Fire Department through an increase in employer contribution rates.

To offset the increased pension liabilities resulting from the 6 firefighters, the FY 2015 budget appropriated \$1,000,000 from the General Fund for deposit into the employer account of the Prescott Fire Department from FY 2015 through FY 2019. As a result, monies in this line item are not included in the annual General Appropriation Act in future years.

Of the remaining 13 firefighters who were classified as seasonal employees and initially considered ineligible for membership in PSPRS, 3 were posthumously enrolled in PSPRS in 2015 after the Prescott Fire Department's local board determined that those firefighters met the criteria for membership. In June 2016, an additional firefighter was posthumously enrolled in PSPRS.

The original estimated liability resulting from the Yarnell Hill fire was \$5,200,000. As noted above, based on this amount, the Legislature appropriated \$5,000,000 in total to the employer account of the Prescott Fire Department over 5 years (FY 2014 – FY 2019). In January 2017, PSPRS re-estimated this liability to be \$10,051,200. The revised estimate is based on the following changes:

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.
- ^{2/} Laws 2013, Chapter 217 appropriated \$5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost plus an amount to amortize the unfunded accrued liability.
- ^{3/} The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 133) appropriated \$1,000,000 annually from the General Fund to the employer account of the Prescott Fire Department group from FY 2015 through FY 2019 to offset increased pension liability.

- The original estimate was based on the assumption that there would be 6 survivor beneficiaries. As of June 2016, there are now 10 survivor beneficiaries.
- The initial estimate also assumed a 7.85% rate of return, based on PSPRS actuarial methodologies at that time. The current PSPRS assumed rate of return is 7.50%.
- Due to ongoing litigation at the time of the original estimate, there was no allowance for Cost of Living Adjustments (COLAs) or Permanent Benefit Increases (CPIs). Due to Proposition 124 and associated legislation, the current estimate assumes a CPI-based COLA of 1.75% starting July 1, 2018.

PSPRS actuaries note that the current estimate of \$10,051,200 may increase as PSPRS elects to make changes to its actuarial assumptions, such as reducing the assumed rate of return.

Other Issues

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, PSPRS’ General Fund costs are projected to decrease by \$(1,000,000) in FY 2020 below FY 2019. This estimate is based on:

Prescott Fire Employer Group Deposit – In FY 2020, the \$1.0 million annual deposit into the employer account of the Prescott Fire Department group is scheduled to be eliminated.

See the Consolidated Retirement Report section for more information on PSPRS legislation, membership, and actuarial data.

Radiation Regulatory Agency

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	34.5	34.5	34.5 ^{1/2/}
Personal Services	867,300	912,400	912,400
Employee Related Expenditures	359,300	380,900	403,700
Professional and Outside Services	50,800	39,200	39,200
Travel - In State	25,300	25,300	25,300
Travel - Out of State	7,000	7,000	7,000
Other Operating Expenditures	269,400	256,700	256,700
Equipment	3,900	0	0
OPERATING SUBTOTAL	1,583,000	1,621,500	1,644,300 ^{3/}
SPECIAL LINE ITEMS			
Nuclear Emergency Management Program	409,800	789,700	789,700 ^{4/5/}
AGENCY TOTAL	1,992,800	2,411,200	2,434,000

FUND SOURCES			
General Fund	1,184,400	1,563,100	787,600
<u>Other Appropriated Funds</u>			
Nuclear Emergency Management Fund	0	0	789,700
Radiation Regulatory Fee Fund	578,000	576,500	582,900
State Radiologic Technologist Certification Fund	230,400	271,600	273,800
SUBTOTAL - Other Appropriated Funds	808,400	848,100	1,646,400
SUBTOTAL - Appropriated Funds	1,992,800	2,411,200	2,434,000
Other Non-Appropriated Funds	59,000	75,400	75,400
Federal Funds	453,900	401,100	401,100
TOTAL - ALL SOURCES	2,505,700	2,887,700	2,910,500

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. Beginning January 1, 2018, the responsibilities of the Arizona Radiation Regulatory Agency are transferred to the Arizona Department of Health Services.

Operating Budget

The budget includes \$1,644,300 and 29 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$787,600
Radiation Regulatory Fee Fund	582,900
State Radiologic Technologist Certification Fund	273,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$22,800 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	14,200
Radiation Regulatory Fee Fund	6,400
State Radiologic Technologist Certification Fund	2,200

(Please see the Agency Detail and Allocations section.)

^{1/} Includes 5.5 OF FTE Positions in FY 2018 appropriated by Laws 2017, Chapter 43.

^{2/} Includes 5.5 OF FTE Positions funded from Special Line Items in FY 2018.

^{3/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

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

^{5/} Laws 2017, Chapter 43 appropriated \$789,663 and 5.5 FTE Positions from the Nuclear Emergency Management Fund in FY 2018 and FY 2019 for the Nuclear Emergency Management Program.

Nuclear Emergency Management Program

The budget includes \$789,663 and 5.5 FTE Positions from the Nuclear Emergency Management Fund (NEMF) in FY 2018 for the Nuclear Emergency Management Program line item. These amounts fund the following adjustments:

Change Funding Source

The budget includes no change in funding in FY 2018 for the Nuclear Emergency Management Program line item. This amount consists of:

General Fund	\$(789,663)
Nuclear Emergency Management Fund	789,663

Laws 2017, Chapter 43 appropriates \$789,663 and 5.5 FTE Positions from NEMF in FY 2018 and in FY 2019. As a result, these monies do not appear in the FY 2018 General Appropriation Act.

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 NEMF appropriation.

The Nuclear Emergency Management Program was previously funded by Laws 2015, Chapter 132, which appropriated \$819,663 and 5.5 FTE Positions from the General Fund in FY 2016 and \$789,663 and 5.5 FTE Positions in FY 2017 for the program. Chapter 132 offset this General Fund appropriation with the NEMF fees, which were deposited into the General Fund.

Chapter 43 directs the fees to the NEMF rather than the General Fund. These monies are now appropriated directly from 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 federal 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.

The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture received monies from Chapter 43. The NEMF appropriation amounts for FY 2017-FY 2019 are displayed in *Table 1*. (Please see the *Department of Emergency and Military Affairs* and the *Department of Agriculture* narratives for more information.)

Other Issues

Additional Legislation

Radiation Regulatory Agency Transfer

Laws 2017, Chapter 313 transfers the Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS), effective January 1, 2018. While the FY 2018 General Appropriation Act appropriated a separate budget for the ARRA, Chapter 313 states that all duties and unexpended or unencumbered monies of ARRA are transferred to DHS on the effective date. The *Appropriations Report* budget display does not reflect this transfer.

Table 1

Nuclear Emergency Management Fund

Agency	FY 2017		FY 2018		FY 2019	
	FTEs	Approp.	FTEs	Approp.	FTEs	Approp.
Emergency and Military Affairs ^{1/}	5.5	\$1,424,377	5.5	\$1,438,465	5.5	\$1,461,602
Radiation Regulatory Agency	5.5	789,663	5.5	789,663	5.5	789,663
Agriculture	1.88	198,434	2.88	275,012	2.88	275,012
Total	12.88	\$2,412,474	13.88	\$2,503,140	13.88	\$2,526,277

^{1/} The Emergency and Military Affairs appropriation includes the appropriations for the Maricopa County Department of Emergency Management and the City of Buckeye.

Fee Authority Continuation

The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) continues the fee raising authority and exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2018. The bill continues an intent clause that limits additional revenues to \$561,000.

State Real Estate Department

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	37.0	37.0	37.0
Personal Services	1,410,000	1,612,600	1,612,600
Employee Related Expenditures	549,200	656,200	689,300
Professional and Outside Services	95,000	115,000	115,000
Travel - In State	14,500	15,000	15,000
Travel - Out of State	4,700	10,000	10,000
Other Operating Expenditures	413,200	498,800	498,800
Equipment	87,700	87,300	87,300
AGENCY TOTAL	2,574,300	2,994,900	3,028,000 ^{1/}
FUND SOURCES			
General Fund	2,574,300	2,994,900	3,028,000
SUBTOTAL - Appropriated Funds	2,574,300	2,994,900	3,028,000
Other Non-Appropriated Funds	121,800	178,900	178,900
TOTAL - ALL SOURCES	2,696,100	3,173,800	3,206,900

AGENCY DESCRIPTION — The department issues licenses for real estate, cemetery, and membership campground sales. The department also regulates the real estate industry, including licensees, developers, subdividers, and real estate schools. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation. Beginning in FY 2017, the responsibilities relating to the dispute resolutions process for condominium and planned community associations were transferred from the Department of Fire, Building and Life Safety to the Arizona Department of Real Estate.

Operating Budget

The budget includes \$3,028,000 and 37 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$33,100 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Residential Utility Consumer Office

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	634,600	757,700	757,700
Employee Related Expenditures	232,900	241,900	254,800
Professional and Outside Services	0	2,400	2,400
Travel - In State	6,300	8,600	8,600
Travel - Out of State	9,700	7,000	7,000
Other Operating Expenditures	178,600	168,800	168,800
OPERATING SUBTOTAL	1,062,100	1,186,400	1,199,300
SPECIAL LINE ITEMS			
Professional Witnesses	85,400	145,000	145,000 ^{1/}
AGENCY TOTAL	1,147,500	1,331,400	1,344,300 ^{2/}

FUND SOURCES

Other Appropriated Funds

Residential Utility Consumer Office Revolving Fund	1,147,500	1,331,400	1,344,300
SUBTOTAL - Other Appropriated Funds	1,147,500	1,331,400	1,344,300
SUBTOTAL - Appropriated Funds	1,147,500	1,331,400	1,344,300
TOTAL - ALL SOURCES	1,147,500	1,331,400	1,344,300

AGENCY DESCRIPTION — The Residential Utility Consumer Office (RUCO) serves as an advocate for residential customers of public utilities in rate hearings held before the Arizona Corporation Commission. Through its technical staff and expert consultants, RUCO analyzes utility company data to determine appropriate positions to take and present on behalf of residential ratepayers. The RUCO Director is appointed by the Governor.

Operating Budget

The budget includes \$1,199,300 and 11 FTE Positions from the RUCO Revolving Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$12,900 from the RUCO Revolving Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Professional Witnesses

The budget includes \$145,000 from the RUCO Revolving Fund in FY 2018 for Professional Witnesses. This amount is unchanged from FY 2017.

Monies in this line item are used to fund expert witness testimony at utility rate hearings.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Board of Respiratory Care Examiners

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	168,400	176,500	176,500
Employee Related Expenditures	62,600	62,600	66,100
Professional and Outside Services	6,500	6,500	6,500
Travel - In State	1,100	1,500	1,500
Travel - Out of State	1,800	2,000	2,000
Other Operating Expenditures	50,500	50,500	50,500
Equipment	0	700	700
OPERATING SUBTOTAL	290,900	300,300	303,800
SPECIAL LINE ITEMS			
Temporary Caseload Increase	0	0	19,500
AGENCY TOTAL	290,900	300,300	323,300^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Respiratory Care Examiners Fund	290,900	300,300	323,300
SUBTOTAL - Other Appropriated Funds	290,900	300,300	323,300
SUBTOTAL - Appropriated Funds	290,900	300,300	323,300
TOTAL - ALL SOURCES	290,900	300,300	323,300

AGENCY DESCRIPTION — The board licenses and regulates respiratory care practitioners. A respiratory therapist performs inhalation therapy and respiratory therapy, which includes administering pharmacological, diagnostic, and therapeutic agents, as directed by a physician.

Operating Budget

The budget includes \$303,800 and 4 FTE Positions from the Board of Respiratory Care Examiners Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,500 from the Board of Respiratory Care Examiners Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Temporary Caseload Increase

The budget includes \$19,500 from the Board of Respiratory Care Examiners Fund in FY 2018 for Temporary Caseload Increase. This amount funds the following adjustments:

One-Time Funding

The budget includes a one-time increase of \$19,500 from the Board of Respiratory Care Examiners Fund in FY 2018 for temporary personnel to process an increased number of cases.

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2018 transfer of \$44,100 from the agency's fund to the Arizona Department of Administration for a statewide 90/10 e-licensing project. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

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

Arizona State Retirement System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	250.9	250.9	250.9
Personal Services	12,544,000	13,025,000	13,025,000
Employee Related Expenditures	4,701,700	5,027,300	5,310,800
Professional and Outside Services	3,938,600	4,077,400	4,077,400
Travel - In State	30,300	30,000	30,000
Travel - Out of State	66,300	49,000	49,000
Other Operating Expenditures	3,184,100	3,205,500	2,675,500
OPERATING SUBTOTAL	24,465,000	25,414,200	25,167,700
SPECIAL LINE ITEMS			
Automation Upgrades	558,100 ^{1/}	2,070,000 ^{1/}	0
AGENCY TOTAL	25,023,100	27,484,200	25,167,700 ^{3/}

FUND SOURCES

Other Appropriated Funds

Long-Term Disability Trust Fund Administration Account	2,071,900	2,800,000	2,500,000
State Retirement System Administration Account	22,951,200 ^{2/}	24,684,200	22,667,700
SUBTOTAL - Other Appropriated Funds	25,023,100	27,484,200	25,167,700
SUBTOTAL - Appropriated Funds	25,023,100	27,484,200	25,167,700
Other Non-Appropriated Funds	71,834,600	74,141,000	80,662,000
TOTAL - ALL SOURCES	96,857,700	101,625,200	105,829,700

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

Operating Budget

The budget includes \$25,167,700 and 250.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
State Retirement System Administration Account	\$22,667,700
Long-Term Disability (LTD) Trust Fund Administration Account	2,500,000

These amounts fund the following adjustments:

Operating Budget Savings

The budget includes a decrease of \$(230,000) from the State Retirement System Administration Account in FY 2018 for operating budget savings resulting from

technology and process improvements. This reduction was requested by ASRS.

New Contract Savings

The budget includes a decrease of \$(300,000) from the Long Term Disability (LTD) Trust Fund in FY 2018 for savings from a LTD program contract with a new third-party vendor. This reduction was requested by ASRS.

In FY 2017, ASRS awarded a contract to a new administrator with lower administrative fees. The change in administrator is expected to generate savings of approximately \$300,000 each year. In addition, there has been a decrease over the past several fiscal years in the number of ASRS members receiving LTD benefits.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

^{2/} Of this amount, \$870,800 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until June 30, 2017.

^{3/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Statewide Adjustments

The budget includes an increase of \$283,500 from the State Retirement System Administration Account in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Automation Upgrades

The budget includes no funding from the State Retirement System Administration Account in FY 2018 for Automation Upgrades. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,070,000) from the State Retirement System Administration Account in FY 2018 for the elimination of funding for Automation Upgrades due to the previously expected completion of the project in FY 2017.

This is 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, ASRS expected the project to only last 4 years. As a result, the FY 2015 budget shifted the funding that would have occurred in the fifth year of the project into the second year of the project. The FY 2016 budget readjusted funding to match estimated project costs in Year 3. The FY 2017 budget matched estimated project costs in Year 4.

The funds for the project were appropriated for 4 years ending in FY 2017, but the project is still ongoing. Project appropriations were non-lapsing and are available to ASRS until the project is complete. ASRS estimates the project will be completed in 2019.

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.

Department of Revenue

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8 ^{1/}
Personal Services	30,080,200	26,096,700	26,302,100
Employee Related Expenditures	12,868,200	11,220,900	12,108,000
Professional and Outside Services	7,488,400	8,133,500	8,206,900
Travel - In State	142,800	241,800	242,000
Travel - Out of State	74,900	59,100	59,100
Other Operating Expenditures	11,037,700	14,878,500	15,026,800
Equipment	1,235,600	2,766,300	2,810,100
OPERATING SUBTOTAL	62,927,800	63,396,800	64,755,000
SPECIAL LINE ITEMS			
BRITS Operational Support	7,150,900	7,497,500	7,604,900
Income Tax Fraud Prevention	0	3,150,000	3,150,000 ^{2/3/}
TPT Information Technology	1,150,400	0	0
TPT Simplification	974,900	970,400	1,005,300
Unclaimed Property Administration and Audit	1,880,800	1,218,500	1,218,500 ^{4/}
Veterans' Income Tax Settlements	0	2,000,000	0
AGENCY TOTAL	74,084,800	78,233,200	77,733,700 ^{5/6/}
FUND SOURCES			
General Fund	28,393,800	31,998,300	31,291,300
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	44,793,600	45,158,700	45,303,700
Department of Revenue Empowerment Scholarship Account Fund	0	0	50,000
Liability Setoff Program Revolving Fund	266,900	397,900	404,100
Tobacco Tax and Health Care Fund	630,500	678,300	684,600
SUBTOTAL - Other Appropriated Funds	45,691,000	46,234,900	46,442,400
SUBTOTAL - Appropriated Funds	74,084,800	78,233,200	77,733,700
Other Non-Appropriated Funds	4,879,000	588,000	588,000
TOTAL - ALL SOURCES	78,963,800	78,821,200	78,321,700

AGENCY DESCRIPTION — The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.

^{1/} Includes 70 GF FTE Positions funded from Special Line Items in FY 2018.

^{2/} The department may not transfer any monies to or from the Income Tax Fraud Prevention line item without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{3/} On or before November 1, 2017, the department shall report the results of private fraud prevention investigation services during FY 2017 to the Joint Legislative Budget Committee. The report shall include the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented during FY 2017. (General Appropriation Act footnote)

^{4/} If the total value of properties retained by unclaimed property contract auditors exceeds \$1,218,500, the excess amount is transferred from the state General Fund to the Department of Revenue Administrative Fund, established by A.R.S. § 42-1116.01, and appropriated to the department for contract auditor fees. (General Appropriation Act footnote)

^{5/} The department shall report the department's General Fund revenue enforcement goals for FY 2018 to the Joint Legislative Budget Committee on or before September 30, 2017. 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 2018 on or before September 30, 2018. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2018, including the amount of projected and actual enforcement collections for all tax types. (General Appropriation Act footnote)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$64,755,000 and 810.8 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$25,037,500
DOR Administrative Fund	38,578,800
DOR Empowerment Scholarship Account Fund	50,000
Liability Setoff Program Revolving Fund	404,100
Tobacco Tax and Health Care Fund	684,600

These amounts fund the following adjustments:

Empowerment Scholarship Account Administration

The budget includes an increase of \$50,000 from the Department of Revenue Empowerment Scholarship Account Fund in FY 2018 for DOR's administrative costs associated with the Empowerment Scholarship Account (ESA) program.

Laws 2017, Chapter 139 creates the Department of Revenue Empowerment Scholarship Account Fund and requires DOR and the Department of Education to develop procedures to determine whether a student qualifies as low-income according to the requirements of the ESA program. DOR will verify the income of parents of students participating in the ESA program using existing information, as well as to create a process to verify income levels of participating families who are not required to file a state income tax return. *(For more information see the Department of Education section, Empowerment Scholarship Account policy issue under Basic State Aid.)*

Statewide Adjustments

The budget includes an increase of \$1,308,200 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	1,165,700
DOR Administrative Fund	130,000
Liability Setoff Program Revolving Fund	6,200
Tobacco Tax and Health Care Fund	6,300

(Please see the Agency Detail and Allocations section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes \$7,604,900 and 51 FTE Positions in FY 2018 for operational support of BRITS. These amounts consist of:

General Fund	2,098,500
DOR Administrative Fund	5,506,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$107,400 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	92,400
DOR Administrative Fund	15,000

Monies in this line item are used for annual server and printer replacement costs, increased BRITS data storage requirements, and information technology personnel to operate and maintain the BRITS system. BRITS is the state's computer system for collecting and processing tax data.

Income Tax Fraud Prevention

The budget includes \$3,150,000 from the General Fund in FY 2018 for Income Tax Fraud Prevention. This amount is unchanged from FY 2017.

This funding initially appeared in the FY 2016 operating budget. The FY 2016 amount was transferred to this line item for ease of comparison. *(Please see the FY 2016 Appropriations Report for more information.)*

These monies are used to contract with a vendor to provide fraud prevention investigation services, make programming changes to the Taxpayer Accounting System (TAS), and provide audit and investigative support.

Based on a DOR report, \$78.4 million in fraudulent returns were prevented in FY 2016, compared to \$71.0 million in prevented fraud in FY 2015 without the vendor services. However, DOR assumes that only \$40 million in fraudulent returns would have been prevented in FY 2016 without the vendor services. This assumption is based on an unchanged methodology from FY 2015 to FY 2016 for identifying and preventing fraudulent schemes.

TPT Simplification

The budget includes \$1,005,300 and 19 FTE Positions from the General Fund in FY 2018 for TPT Simplification responsibilities. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$34,900 from the General Fund in FY 2018 for statewide adjustments.

While this funding was initially included in the operating budget in FY 2015, the FY 2016 monies were appropriated in a separate line item. The FY 2015 amounts are displayed as a part of this line item for ease of comparison. *(Please see the FY 2015 Appropriations Report for more information.)*

Laws 2013, Chapter 255 and Laws 2014, Chapter 263 created a unified TPT audit and collections system under the auspices of DOR. As a result, DOR will assume the responsibility for the audit and collection of TPT taxes for all municipalities including the 14 "Non-Program" cities which currently administer their own TPT taxes. These monies will allow DOR to fund the additional staffing associated with the new TPT oversight responsibilities.

Unclaimed Property Administration and Audit

The budget includes \$1,218,500 from the DOR Administrative Fund in FY 2018 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2017.

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.

Veterans' Income Tax Settlements

The budget includes no funding from the General Fund in FY 2018 for Veterans' Income Tax Settlements. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2018 for the elimination of one-time funding for settlement payments to refund incorrectly held income taxes.

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) created the Veterans' Income Tax Settlement Fund and appropriated \$2,000,000 from the General Fund to this new fund. These funds will be used to distribute settlement payments to Native American veterans for over withholding of state individual income tax between July 1, 1977 and December 31, 2005. Members of an Indian tribe who are domiciled on an Indian reservation are not subject to state income tax, and military service men and women do not relinquish their domicile status while on assignment out of state.

Additionally, 5% of the fund balance at the beginning of each fiscal year can be used by both DOR and the Department of Veterans' Services for costs to administer the program. On or before October 1 of each year during CY 2017 through CY 2021, DOR shall report to the Legislature on the amount of withholdings subject to payments and the number of veterans affected. Any remaining monies in the fund on June 30, 2021 will revert to the General Fund.

The FY 2017 Revenue BRB originally stipulated that individual income tax withheld between September 1, 1993 and December 31, 2005 would be eligible for settlement payments. However, Laws 2017, Chapter 215 extended the window to July 1, 1977 through December 31, 2005. Laws 2017, Chapter 215 also extended DOR's reporting requirements through CY 2021 and amended the date on which funds revert to the General Fund to June 30, 2021. Previously, these criteria were CY 2019 and June 30, 2019, respectively.

Other Issues

Additional Legislation

DOR Local Cost Sharing

The FY 2018 Revenues BRB (Laws 2017, Chapter 312) continues the legislative intent statement that local fees authorized by A.R.S. § 42-5041B, do not exceed \$20,755,835 and are to be allocated between cities and towns, counties, the Maricopa Association of Governments and the Pima Association of Governments based on the prorated share of all revenues distributed to them (excluding Highway User Revenue Fund allocations.) This fee is levied on local governments to recover a portion of DOR's operating costs incurred to collect, process, and distribute local and state shared revenues.

Tobacco Tax/Master Settlement Agreement

The budget continues to transfer \$436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2018 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 AHCCCS for more information regarding these transfers.)*

APF - Enterprise Tax System Replacement Assessment

The budget includes a decrease of \$(1,000,000) to the Automation Projects Fund to eliminate one-time funding for vendor services to assess the available options to replace DOR's existing primary tax system. DOR did not spend these monies and the budget reverted the monies back to the Liability Setoff Program Revolving Fund. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

APF - Information Technology Infrastructure

The budget includes a \$4,000,000 transfer from the Department of Revenue Administrative Fund and \$4,000,000 from Liability Setoff Program Revolving Fund to the Automation Projects Fund in FY 2018 for upgrades to DOR's IT infrastructure. In addition, the budget appropriates \$3,000,000 from a balance in the Automation Project Fund for this same purpose, thereby providing a total of \$11,000,000 in resources for DOR IT infrastructure. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Enforcement Staffing Reduction

In FY 2017, DOR's budget was reduced by \$(4.4) million due to the elimination of \$(1.2) million in one-time funds for TPT IT changes, \$(2.8) million in one-time funds from a \$0.76 fee assessed to Non-Program cities for TPT IT changes, and \$(406,700) for lower state employer health insurance premiums. Even though the large majority of the reduction involved one-time funds, DOR is eliminating ongoing expenses as part of the solution by reducing enforcement staffing. Along with the enforcement staffing decrease, DOR has also reduced its IT budget to further offset the funding reduction.

DOR decreased its enforcement staffing from 212 auditors and 120 collectors at the beginning of FY 2016 to 114 auditors and 88 collectors as of February 2017. DOR does not expect total enforcement collections to drop as a result of the loss of these 108 FTE Positions. Instead, the department expects to make up any decrease in revenue from auditors and collectors with increased, and more accurate, voluntary compliance. Revenue projections have not been adjusted as a result of these changes.

In FY 2010 and FY 2011, DOR was appropriated a total of \$7.7 million for audit and collections staff increases.

These appropriations were expected to increase General Fund revenues by a combined \$52.3 million. However, the actual revenue impact as a result of these staff increases is not known.

School Facilities Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	785,900	993,600	993,600
Employee Related Expenditures	273,900	330,200	344,200
Professional and Outside Services	143,200	140,000	140,000
Travel - In State	16,700	36,000	36,000
Travel - Out of State	100	0	0
Other Operating Expenditures	197,200	166,900	166,900
Equipment	34,100	0	0
OPERATING SUBTOTAL	1,451,100	1,666,700	1,680,700
SPECIAL LINE ITEMS			
New School Facilities			
New School Facilities (FY 2016 Authorization)	2,249,600	1,174,600	0
New School Facilities (FY 2017 Authorization)	0	23,078,600	23,078,600 ^{1/2/}
New School Facilities (FY 2018 Authorization)	0	0	63,929,800 ^{3/}
New School Facilities Debt Service	171,109,400	170,006,600	169,761,700 ^{4/}
Other Programs			
Access Our Best Public Schools Fund Deposit	23,900,000	0	0
Building Renewal Grants	31,667,900	31,667,900	33,835,800
Public School Credit Enhancement Transaction Costs	0	500,000	0
AGENCY TOTAL	230,378,000	228,094,400	292,286,600 ^{5/6/}
FUND SOURCES			
General Fund	230,378,000	228,094,400	292,286,600
SUBTOTAL - Appropriated Funds	230,378,000	228,094,400	292,286,600
Other Non-Appropriated Funds	93,644,600	91,567,000	90,594,000
TOTAL - ALL SOURCES	324,022,600	319,661,400	382,880,600

AGENCY DESCRIPTION — The School Facilities Board (SFB) is composed of 9 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Grant Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts. In addition, SFB Staff provides support to the Credit Enhancement Eligibility Board, which operates the Arizona Public School Credit Enhancement program for district and charter schools.

- ^{1/} The sum of \$23,078,600 is appropriated from the state General Fund in FY 2018 for a one-time deposit into the New School Facilities Fund established by A.R.S. § 15-2041. The School Facilities Board shall use the monies only for facilities that will be constructed for school districts that received final approval from the School Facilities Board on or before March 1, 2016. (FY 2017 General Appropriation Act footnote)
- ^{2/} If, after reviewing revised enrollment projections for a union high school district project approved on or before March 1, 2016, the School Facilities Board determines the awarded project is no longer required pursuant to the A.R.S. § 15-2041E, the sum of \$16,705,000 appropriated to the New School Facilities Fund in Subsection A of this section shall revert to the state General Fund. (FY 2017 General Appropriation Act footnote)
- ^{3/} Pursuant to A.R.S. § 15-2041 the amount appropriated for New School Facilities shall be used only for facilities and land costs that are for school districts that received final approval from the School Facilities Board between March 2, 2016 and March 1, 2017. (General Appropriation Act footnote)
- ^{4/} At least 30 days before any monies are transferred out of the New School Facilities Debt Service Line Item, the School Facilities Board shall report the proposed transfer to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{5/} 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 2018 must be deposited in or revert to the state General Fund. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$1,680,700 and 17 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$14,000 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

New School Facilities

The budget includes \$87,008,400 from the General Fund in FY 2018 for New School Facilities. The FY 2018 funding amount for New School Facilities includes the following:

- \$23,078,600 for the remaining 50% of funding to complete 2 projects which were authorized to begin construction in FY 2017.
- \$63,929,800 for the land costs and the first 50% of construction costs for 6 projects that were authorized to begin construction in FY 2018.

(Please see Table 1 for a summary of FY 2016 through FY 2018 New School Facilities Appropriations.)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
FY 2016 Authorization			
Benson USD (K-4)	2.2	1.1	0.0
Total – FY 2016 Auth.	2.2	1.1	0.0
FY 2017 Authorization			
Agua Fria UHSD (9-12)	0.0	16.7	16.7
Chandler USD (7-12)	0.0	6.4	6.4
Total – FY 2017 Auth.	0.0	23.1	23.1
FY 2018 Authorization			
Chandler USD (9-12)	0.0	0.0	3.5
Chandler USD (9-12)	0.0	0.0	5.2
Chandler USD (7-12)	0.0	0.0	2.1
Queen Creek USD (9-12)	0.0	0.0	12.3
Queen Creek (9-12) Land	0.0	0.0	17.6
Vail USD (K-5)	0.0	0.0	3.8
Vail USD (K-5) Land	0.0	0.0	1.5
Vail USD (9-12)	0.0	0.0	10.9
Vail USD (9-12) Land	0.0	0.0	6.0
Site Conditions	0.0	0.0	1.0
Total – FY 2018 Auth.	0.0	0.0	63.9
Total – All Years	2.2	24.2	87.0

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 2016 meeting, JLBC approved a 4.31% 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. Pursuant to A.R.S. § 15-2041D, this adjustment is only applied prospectively. (Please see Table 2 for FY 2018 statutory funding guidelines.)

<u>Type of School</u>	<u>Square Feet Per Student</u>	<u>Funding Per Square Foot</u> ^{1/2/}
K-6	90	\$142.55
7-8	100	\$150.49
9-12 (<1,800 pupils)	134	\$174.25
9-12 (≥1,800 pupils)	125	\$174.25

1/ Increased by 5% for rural school districts.
2/ FY 2018 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 2016, there were \$4.8 billion of school district bonds outstanding.

New School Facilities (FY 2016 Authorization)

The budget includes no funding in FY 2018 for New School Facilities authorized to begin construction in FY 2016. This amount funds the following adjustments:

New School Funding Completion

The budget includes a decrease of \$(1,174,600) from the General Fund in FY 2018 for the Benson USD project as

the project received its remaining 50% of funding in FY 2017.

The project was 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.

Originally approved by SFB in December 2014, SFB awarded Benson USD funding to construct a 17,190 square foot K-4 school addition with capacity for 191 students. At this time, Benson USD has not yet started construction for the project.

New School Facilities (FY 2017 Authorization)

The budget includes \$23,078,600 in FY 2018 to continue funding for New School Facilities authorized to begin construction in FY 2017. This amount is unchanged from FY 2017.

This FY 2018 amount includes:

- Agua Fria Union UHSD (9-12) – \$16,705,000 is allocated for a 200,000 square foot new school. The school will have capacity for 1,600 students in grades 9-12. The total state cost is \$33,410,000 (\$16,705,000 in FY 2017 and \$16,705,000 in FY 2018).
- Chandler Unified (7-12) – \$6,373,600 is allocated for a 79,940 square foot high school addition. The additional space will provide added capacity for 685 students in grades 7-12. This is an expansion of Camille Casteel High School, which opened in fall 2015. The first phase of the school was constructed by Chandler USD using local monies. The total state cost is \$12,747,200 (\$6,373,600 in FY 2017 and \$6,373,600 in FY 2018).

The FY 2017 General Appropriation Act already appropriated the FY 2018 amount, as a result these monies do not appear in the FY 2018 General Appropriation Act.

The FY 2018 Baseline originally included \$1,000,000 for site conditions related to these projects. SFB subsequently indicated these 2 projects would not require additional site conditions funding. This \$1,000,000 amount, however, was included in the enacted budget to address any unanticipated site conditions for schools authorized to begin construction in FY 2018.

New School Facilities (FY 2018 Authorization)

The budget includes \$63,929,800 in FY 2018 to begin funding for New School Facilities authorized to start

construction in FY 2018. This amount funds the following adjustments:

Begin New School Construction Projects

The budget includes an increase of \$62,929,800 from the General Fund in FY 2018 to start 6 new school construction projects awarded by SFB in February 2017. This amount includes:

- Chandler Unified (9-12) – \$3,485,000 is allocated for a 40,000 square foot high school addition at Hamilton High School. The addition will have capacity for 320 students in grades 9-12. The total state cost is \$6,970,000 (\$3,485,000 in FY 2018 and \$3,485,000 in FY 2019). There is no additional land required.
- Chandler Unified (9-12) – \$5,227,500 is allocated for a 60,000 square foot high school addition at Camille Casteel High School. The addition will have capacity for 480 students in grades 9-12. The total state cost is \$10,455,000 (\$5,227,500 in FY 2018 and \$5,227,500 in FY 2019). There is no additional land required.
- Chandler Unified (7-12) – \$2,077,000 is allocated for a 24,974 square foot new school. The school will have capacity for 214 students in grades 7-12. The total state cost is \$4,153,900 (\$2,077,000 in FY 2018 and \$2,077,000 in FY 2019). There is no additional land required.
- Queen Creek Unified (9-12) – \$29,900,800 is allocated for a 141,875 square foot new school. The school will have capacity for 1,135 students in grades 9-12. The project is funded as follows: FY 2018 funding of \$29,900,800, which includes \$12,260,800 for construction and \$17,640,000 for land; and FY 2019 funding of \$12,460,800 for construction. The enacted budget provided approximately 50% of construction costs in each of FY 2018 and FY 2019.
- Vail Unified (K-5) – \$5,348,900 is allocated for a 54,000 square foot new school. The school will have capacity for 600 students in grades K-5. The project is funded as follows: FY 2018 funding of \$5,348,900, which includes \$3,848,900 for construction and \$1,500,000 for land; and FY 2019 funding of \$3,848,900 for construction.
- Vail Unified (9-12) – \$16,890,600 is allocated for a 125,000 square foot new school. The school will have capacity for 1,000 students in grades 9-12. The project is funded as follows: FY 2018 funding of \$16,890,600, which includes \$10,890,600 for construction and \$6,000,000 for land; and FY 2019 funding of \$10,890,600 for construction.

In addition, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305, Sec 137) appropriates the remaining \$37,989,800 of funding in FY 2019 for these 6 projects. (See *Long-Term Budget Impacts* section for more information.)

New School Construction Site Conditions

The budget includes an increase of \$1,000,000 from the General Fund in FY 2018 for site conditions related to the 6 projects authorized to begin construction in FY 2018.

The FY 2018 Baseline originally included \$1,000,000 for site conditions related to projects scheduled to start in FY 2017. SFB subsequently indicated those projects would not require additional site conditions funding. This \$1,000,000 amount, however, was included in the enacted budget to address any unanticipated site conditions for schools authorized to begin construction in FY 2018.

Site conditions funding is used by SFB for extraordinary site-specific construction needs such as: 1) Earth moving costs beyond normal requirements (such as dynamite blasting); 2) Building footings that must be deeper than standard code (in excess of 3 feet below grade); and 3) Replacing poor/collapsing soil which cannot support buildings with other materials such as engineered fill. Site conditions do not include the costs of utilities placement or complying with standard local building codes.

New School Facilities Debt Service

The budget includes \$169,761,700 from the General Fund in FY 2018 for New School Facilities Debt Service. This amount funds the following adjustments:

Lease-Purchase Payment

The budget includes a decrease of \$(244,900) from the General Fund in FY 2018 for decreased lease-purchase payments. This reflects the variations in SFB's existing lease-purchase schedule.

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 2018, the outstanding amount of General Fund lease-purchase principal to be paid will be \$479,778,800.

The FY 2018 budget includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2018. 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 2018 related to the lease-purchase payment.

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.

Other Programs

Building Renewal Grants

The budget includes \$33,835,800 from the General Fund in FY 2018 for Building Renewal Grants. This amount funds the following adjustments:

Increase One-Time Funding

The budget includes an increase of \$2,167,900 from the General Fund in FY 2018 for an increase in one-time funding for building renewal grants.

The FY 2017 budget included \$15,000,000 of one-time funding for building renewal grants from the General Fund in FY 2017.

The FY 2018 budget increases this one-time building renewal grant funding amount to \$17,167,900 from the General Fund in FY 2018, which represents an increase of \$2,167,900. The enacted budget 3-year spending plan labels this funding as one-time and discontinues it beginning in FY 2019.

Since FY 2014, the state has funded an ongoing "base" amount of Building Renewal Grant funding of \$16,667,900. As noted above, the FY 2017 and FY 2018 budgets included one-time funding above this base amount.

In addition to being used for standard building renewal projects, the FY 2018 K-12 Education BRB (Laws 2017, Chapter 304) authorizes SFB to spend up to \$200,000 from the Building Renewal Grant Fund in FY 2018 for lead testing for school water systems.

Background – 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. (Please see Table 3 for the FY 2013 through FY 2018 Building Renewal Appropriations.)

Table 3

**Building Renewal Appropriations
FY 2013 - FY 2018**

<u>Fiscal Year</u>	<u>Appropriation</u>
2013	2,667,900
2014	16,667,900
2015	16,667,900
2016	31,667,900
2017	31,667,900
2018	33,835,800

Pursuant to A.R.S. § 15-2022, SFB is required to transfer excess funds in the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund to the extent that the transfer does not affect or disrupt any approved new construction projects. NSF Fund revenues are derived from legislative appropriations and lease-purchase proceeds. SFB estimates the EDC Fund to have a \$0 balance at the beginning of FY 2018.

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.

Public School Credit Enhancement Transaction Costs

The budget includes no funding from the General Fund in FY 2018 for Public School Credit Enhancement Transaction Costs. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2018 for the elimination of one-time funding. The FY 2017 Credit Enhancement BRB (Laws 2016, Chapter 129) appropriated one-time funding of \$500,000 from the General Fund in FY 2017 for Public School Credit Enhancement Transaction Costs. This appropriation is non-lapsing, except that all monies remaining unexpended and unencumbered on June 30, 2018 revert to the General Fund.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Additional Legislation
- K-12 Capital Bonding
- Class B Bond Approvals
- Public School Credit Enhancement Program

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, SFB's General Fund costs are projected to decrease by \$(83,627,400) in FY 2019 below FY 2018 and decrease by \$(16,447,100) in FY 2020 below FY 2019. These estimates are based on:

Debt Service Changes

SFB debt service is expected to decrease by \$(35,474,500) in FY 2019 and \$(2,416,700) in FY 2020. 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).

One-Time Building Renewal Funding

SFB building renewal grant costs funding would decrease by \$(17,167,900) in FY 2019 and remaining unchanged in FY 2020. The enacted budget 3-year spending plan labeled the FY 2018 funding increase as one-time and discontinues it beginning in FY 2019.

New School Construction

The long term estimates assume 2 types of new school construction funding: 1) Providing the remaining funding in FY 2019 for the schools which were authorized begin construction in FY 2018; and 2) Conceptual approval made by SFB as part of the agencies' long-term planning process.

In FY 2019, new school construction spending is projected to decrease by \$(30,985,000). In addition, FY 2020 new school construction spending is projected to decrease by \$(14,030,400) below FY 2019. *(Please see Table 4 for more detail on Long-Term New School Facilities funding projections.)*

Long-term budget estimates are subject to change depending on SFB's future awards of new school construction and any changes to the inflation adjustment for new school construction costs.

Additional Legislation

New School Facilities Approval Date

The K-12 Education BRB (Laws 2017, Chapter 304) moves the application date for new school construction monies by school districts from September 1 annually to July 1, and moves SFB's required approval date from March 1 annually to December 1. In addition, it requires the use of most recent 40th day average daily membership count in determining eligibility for SFB new construction funding. Given the adjusted dates, Chapter 304 also reduces length of time between new school application and SFB decision to 5 months.

Table 4

Long-Term New School Facilities Funding
(\$ in Millions)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
FY 2017 Authorization			
Agua Fria UHSD (9-12)	16.7	0.0	0.0
Chandler USD (7-12)	<u>6.4</u>	<u>0.0</u>	<u>0.0</u>
Total – FY 2017 Auth.	23.1	0.0	0.0
FY 2018 Authorization			
Chandler USD (9-12)	3.5	3.5	0.0
Chandler USD (9-12)	5.2	5.2	0.0
Chandler USD (7-12)	2.1	2.1	0.0
Queen Creek USD (9-12)	12.3	12.5	0.0
Queen Creek (9-12) Land	17.6	0.0	0.0
Vail USD (K-5)	3.8	3.8	0.0
Vail USD (K-5) Land	1.5	0.0	0.0
Vail USD (9-12)	10.9	10.9	0.0
Vail USD (9-12) Land	6.0	0.0	0.0
Site Conditions	<u>1.0</u>	<u>0.0</u>	<u>0.0</u>
Total – FY 2018 Auth.	63.9	38.0	0.0
Conceptual - FY 2019 Start			
Chandler USD (9-12)	0.0	4.4	4.4
Queen Creek USD (K-5)	0.0	4.5	4.5
Sahuarita USD (K-8)	0.0	5.3	5.3
Vail USD (K-5)	<u>0.0</u>	<u>3.8</u>	<u>3.8</u>
Total – FY 2019 Start	0.0	18.0	18.0
Conceptual - FY 2020 Start			
Tolleson UHSD (9-12)	<u>0.0</u>	<u>0.0</u>	<u>24.0</u>
Total – FY 2020 Start	0.0	0.0	24.0
Total – All Years	87.0	56.0	42.0

Lead in Water Testing Costs

The K-12 Education BRB (Laws 2017, Chapter 304) allows SFB to spend up to \$200,000 from the Building Renewal Grant Fund in FY 2018 for consultant services for programs associated with lead in school water systems.

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.

As of the end of FY 2016, 149 school districts have outstanding voter-approved bonds. The total amount of voter-approved bonds outstanding at the end of FY 2016 was approximately \$4.8 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, 2016. 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 18 districts with Class B bond approvals in 2016 for a total of \$1.1 billion.

Public School Credit Enhancement Program

The FY 2017 Credit Enhancement BRB created the Arizona Public School Credit Enhancement Program. The program assists achievement district schools in obtaining financing by guaranteeing the payment of principal and interest.

At its April 2017 meeting, the Credit Enhancement Board approved 2 items: 1) \$25 million of financing for the Academy of Math and Science (\$21 million for new construction and \$4 million for refinancing); and 2) \$17 million of new construction financing for the Arizona Agribusiness and Equine Center.

At its June 2017 meeting, the Credit Enhancement Board approved \$36 million of financing for Great Hearts Academies, which consisted of \$16 million for new construction and \$20 million for refinancing.

To date, the Credit Enhancement Board has approved \$78 million of guaranteed financings.

(Please see the School Facilities Board section of the FY 2018 Baseline for more information.)

Department of State - Secretary of State

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	141.1	141.1	141.1
Personal Services	4,671,700	4,210,800	4,210,800
Employee Related Expenditures	1,974,700	1,809,600	1,947,900
Professional and Outside Services	367,500	104,100	104,100
Travel - In State	17,700	14,100	14,100
Travel - Out of State	35,300	28,400	28,400
Other Operating Expenditures	2,990,400	6,120,400	5,886,900
Equipment	105,800	1,300	1,300
OPERATING SUBTOTAL	10,163,100	12,288,700	12,193,500 ^{1/}
SPECIAL LINE ITEMS			
Election Services	4,336,900	2,672,500	0
Help America Vote Act (HAVA)	724,600	2,941,100	2,943,700 ^{2/3/}
Library Grants-in-Aid	651,400	651,400	651,400 ^{4/}
Special Election	0	0	0
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
AGENCY TOTAL	15,973,000	18,650,700	15,885,600 ^{5/6/}
FUND SOURCES			
General Fund	14,713,400	14,969,200	12,190,100
<u>Other Appropriated Funds</u>			
Election Systems Improvement Fund	724,600	2,941,100	2,943,700
Records Services Fund	535,000	740,400	751,800
SUBTOTAL - Other Appropriated Funds	1,259,600	3,681,500	3,695,500
SUBTOTAL - Appropriated Funds	15,973,000	18,650,700	15,885,600
Other Non-Appropriated Funds	686,100	932,000	932,000
Federal Funds	3,449,800	3,360,200	3,360,200
TOTAL - ALL SOURCES	20,108,900	22,942,900	20,177,800

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; certifying certain telemarketing and charitable solicitation organizations, and provides administrative support for the Commission on Uniform State Laws. 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.

- ^{1/} Included in the operating lump sum appropriation of \$12,193,500 for FY 2018 is \$5,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations.)
- ^{2/} The FY 2018 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, 2019. (General Appropriation Act footnote)
- ^{3/} 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, 2017 the actual amount and purpose of expenditures from the Election Systems Improvement Fund established by A.R.S. § 41-129 in FY 2017 and the expected amount and purpose of expenditures from the fund for FY 2018. (General Appropriation Act footnote)
- ^{4/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
- ^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{6/} In expending the monies appropriated in this section for the statewide voter registration system, the Secretary of State shall prescribe the manner in which counties must submit data as required by A.R.S. § 16-168. (General Appropriation Act footnote)

Operating Budget

The budget includes \$12,193,500 and 141.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
General Fund	\$11,441,700
Record Services Fund	751,800

These amounts fund the following adjustments:

Remove Elections One-Time Funding

The budget includes a decrease of \$(712,000) from the General Fund in FY 2018 for the removal of one-time elections funding. While these monies would typically be in the Election Services line item, the transfer of these funds to the Operating Budget was favorably reviewed at the June 16, 2016 Joint Legislative Budget Committee meeting. These monies are being removed as there is no statewide election in FY 2018. This FY 2018 funding level is consistent with the 3-year spending plan associated with the enacted FY 2017 budget.

One-Time Operating Funding

The budget includes an increase of \$500,000 from the General Fund in FY 2018 for one-time department expenses.

Statewide Adjustments

The budget includes an increase of \$116,800 from the General Fund in FY 2018 for statewide adjustments. This amount consists of:

General Fund	105,400
Record Services Fund	11,400

(Please see the Agency Detail and Allocations section.)

Election Services

The budget includes no funding from the General Fund in FY 2018 for Election Services. This amount funds the following adjustment:

Remove One-Time Funding

The budget includes a decrease of \$(2,672,500) from the General Fund in FY 2018 for the removal of one-time election activities monies from FY 2017.

For FY 2017, this line item included funding for the Primary Election held on August 30, 2016 and the General Election on November 8, 2016 in FY 2017.

These monies are being removed as there is no statewide election in FY 2018. This FY 2018 funding level is consistent with the 3-year spending plan associated with the enacted FY 2017 budget.

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; 4) print and mail a publicity pamphlet to every household with a registered voter for any initiative or referendum; 5) review and process initiative and referendum signatures; and 6) process challenges to candidate eligibility.

Help America Vote Act (HAVA)

The budget includes \$2,943,700 from the Election Systems Improvement Fund in FY 2018 for the Help America Vote Act (HAVA) (P.L. 107-252). This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,600 from the Election Systems Improvement Fund in FY 2018 for statewide adjustments.

HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections.

Library Grants-in-Aid

The budget includes \$651,400 from the General Fund in FY 2018 for Library Grants-in-Aid. This amount is unchanged from FY 2017.

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.

Special Election

The budget includes no funding from the General Fund in FY 2018 for a statewide special election.

Laws 2015, 1st Special Session, Chapter 2 as amended by Laws 2016, Chapter 3, appropriated \$9,300,000 from the General Fund to pay for a statewide special election in FY 2016. Chapter 2 required that a special election be held on May 17, 2016 to consider: 1) Proposition 123, a constitutional amendment to provide for increased State Land Trust distributions and other changes related to education finance as proposed in HCR 2001; and 2) Proposition 124, a constitutional amendment to allow the Legislature to change the Public Safety Personnel Retirement System from a permanent benefit increase structure to a compounding an annual cost of living adjustment.

The appropriation for the special election is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

As of the end of FY 2016, no monies had been expended from this line item. Because of this, FY 2016 actual spending for the line is displayed as zero. As of June 2017, \$6.3 million of claims have been submitted to SOS and additional expenditures are expected.

Statewide Radio Reading Service for the Blind

The budget includes \$97,000 from the General Fund in FY 2018 for Statewide Radio Reading Service for the Blind. This amount is unchanged from FY 2017.

These monies are used to provide information access services for blind and visually impaired individuals. Services include radio information broadcasts, a telephone and web-based news reading service, and internet radio broadcasting for individuals who are outside the range of the radio broadcast.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the General Fund Election line spending would be restored to \$3,384,500 for the primary and general elections in FY 2019 and maintained at that level for the Presidential Preference election in FY 2020. This increase would be

offset by a reduction of \$(500,000) to eliminate one-time operating funding in the FY 2018 budget.

Additional Legislation

Secretary of State Omnibus

Laws 2017, Chapter 223 modifies duties of the Secretary of State including the elimination of certain duties that the SOS undertakes on behalf of the Board of Technical Registration, State Forester, and Counties. The changes include provisions that allow the Secretary of State to establish or alter the means of publishing and/or filing for certain rulemaking, notices, and actions. The legislation includes provisions that the Secretary of State maintain a Commission on Uniform State Laws and re-establishes the commission in statute. The commission was repealed by Laws 2007, Chapter 259, and reestablished by Executive Order 2007-16.

The commissioners are members of the National Uniform Laws Commission, which meets annually to discuss where uniformity among state laws is desirable. Arizona's Commission on Uniform State Laws then recommends to the Legislature proposed uniform laws that it deems appropriate for Arizona.

Laws 2017, Chapter 223 outlines the commission membership and terms of 4 members, allows for the reimbursement of expenses, outlines the process for Arizona's participation in enacting uniform laws, and allows the Secretary of State to maintain membership in the commission. Costs associated with the commission are to be paid from the Secretary of State's operating budget.

Monies for the commission previously paid for annual membership dues, in addition to travel expenses for the commissioners. The commission received an appropriation of \$75,000 in FY 2014. Of these monies, \$54,000 was used for dues and the remaining \$21,000 for the travel expenses of the 6 members.

State Boards' Office

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	0.0	0.0
Personal Services	76,500	0	0
Employee Related Expenditures	35,300	0	0
Professional and Outside Services	900	0	0
Other Operating Expenditures	19,800	0	0
Equipment	8,100	0	0
AGENCY TOTAL	140,600	0	0

FUND SOURCES

Other Appropriated Funds

Special Services Revolving Fund	140,600	0	0
SUBTOTAL - Other Appropriated Funds	140,600	0	0
SUBTOTAL - Appropriated Funds	140,600	0	0
TOTAL - ALL SOURCES	140,600	0	0

AGENCY DESCRIPTION — The office serves to centralize services and pool resources of small regulatory boards. Examples of shared items include office space and equipment, as well as accounting, clerical, administrative, and telephone services. The office is under the Management Services Division of the Arizona Department of Administration, but is supported by transfers of appropriated funds from the participating boards.

Operating Budget

The budget includes no funding from the Special Services Revolving Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) merged the State Boards' Office with the Arizona Department of Administration (ADOA) Central Services Bureau. It also designated the ADOA Central Services Bureau allocation in the Special Services Revolving Fund as an appropriated fund source. *(Please see the ADOA narrative for more information.)*

State Board of Tax Appeals

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	170,500	179,000	179,000
Employee Related Expenditures	48,400	44,600	46,300
Travel - In State	300	400	400
Other Operating Expenditures	43,100	42,600	42,600
AGENCY TOTAL	262,300	266,600	268,300^{1/}
FUND SOURCES			
General Fund	262,300	266,600	268,300
SUBTOTAL - Appropriated Funds	262,300	266,600	268,300
TOTAL - ALL SOURCES	262,300	266,600	268,300

AGENCY DESCRIPTION — The board consists of 3 members appointed by the Governor. The board provides an independent appeals process for taxpayers with disputes relating to income, sales, use, estate, and luxury tax decisions from the Department of Revenue and resolves jurisdictional disputes between municipalities regarding the imposition of transaction privilege and use taxes.

Operating Budget

The budget includes \$268,300 and 4 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,700 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

State Board of Technical Registration

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.0	25.0	25.0
Personal Services	967,700	1,106,400	1,106,400
Employee Related Expenditures	428,500	439,000	468,300
Professional and Outside Services	49,800	940,600	228,600
Travel - In State	2,800	5,000	5,000
Travel - Out of State	17,200	17,200	17,200
Other Operating Expenditures	407,100	408,200	408,200
Equipment	113,500	0	0
AGENCY TOTAL	1,986,600	2,916,400	2,233,700^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Technical Registration Fund	1,986,600	2,916,400	2,233,700
SUBTOTAL - Other Appropriated Funds	1,986,600	2,916,400	2,233,700
SUBTOTAL - Appropriated Funds	1,986,600	2,916,400	2,233,700
Other Non-Appropriated Funds	18,300	11,200	11,200
TOTAL - ALL SOURCES	2,004,900	2,927,600	2,244,900
AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of architects, engineers, geologists, home inspectors, land surveyors, and landscape architects.			

Operating Budget

The budget includes \$2,233,700 and 25 FTE Positions from the Technical Registration Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-time Funding

The budget includes a decrease of \$(712,000) from the Technical Registration Fund in FY 2018 to eliminate one-time start-up costs for the agency's e-licensing database system. Of the \$800,000 amount appropriated in FY 2017 for the e-licensing database, the budget continues \$88,000 to fund ongoing operational costs.

Statewide Adjustments

The budget includes an increase of \$29,300 from the Technical Registration Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Office of Tourism

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.0	28.0	28.0
Personal Services	1,542,100	1,772,800	1,772,800
Employee Related Expenditures	530,400	592,300	592,300
Professional and Outside Services	2,413,900	2,304,300	2,304,300
Travel - In State	11,000	27,100	27,100
Travel - Out of State	133,400	231,500	231,500
Other Operating Expenditures	2,037,100	2,094,700	2,094,700
Equipment	62,100	89,300	89,300
AGENCY TOTAL	6,730,000	7,112,000	7,112,000^{1/}
FUND SOURCES			
General Fund	6,730,000	7,112,000	7,112,000
SUBTOTAL - Appropriated Funds	6,730,000	7,112,000	7,112,000
Other Non-Appropriated Funds	14,195,900	14,139,900	14,139,900
TOTAL - ALL SOURCES	20,925,900	21,251,900	21,251,900

AGENCY DESCRIPTION — The office is responsible for promoting tourism within the state, which includes planning and developing an information campaign, advertising, exhibitions, and operating a visitors' center. The agency receives a transfer from the Arizona Sports and Tourism Authority (AZSTA), a portion of tribal gaming contributions, and General Fund appropriations to the Tourism Fund.

Operating Budget

The budget includes \$7,112,000 and 28 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts are unchanged from FY 2017.

Other Issues

Funding Sources

The Office of Tourism receives funding from 3 primary sources: 1) a General Fund appropriation to fund the agency's operating budget; 2) a transfer from AZSTA, generated from partial allocations of a bed tax and car rental tax in Maricopa County (A.R.S. § 5-835), to fund Maricopa County tourism promotion; and 3) a portion of tribal gaming contributions (A.R.S. § 5-601.02) to fund statewide tourism promotion. *(For further details on agency revenues, please see Table 1.)*

Special Sporting Event Promotion

Laws 2016, Chapter 366 provides an annual General Fund appropriation of \$1,500,000 from FY 2022 through FY

2051 to the State Treasurer for distribution to the Office of Tourism if certain conditions are met. The funds are to be used to promote an auto racing sporting event. Prior to the release of any monies, between December 31, 2016 and December 31, 2020, the eligible auto racing sporting event must spend at least \$100,000,000 on land acquisitions, construction, improvements, or renovations of their facilities. Once these investments are made, the bill requires the eligible auto racing sporting event to receive JLBC certification of their expenditures. After certification is received, the Treasurer is then appropriated \$1,500,000 in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, or a total General Fund cost of \$45,000,000.

Additionally, Chapter 366 requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year.

In November 2016, the parent company of Phoenix International Raceway (PIR), International Speedway Corporation, announced plans to make \$178.0 million in renovations to the raceway. PIR hosts 2 annual NASCAR

^{1/} General Appropriation Act funds are appropriated as a Lump Sum in the form of a deposit to the Tourism Fund.

events in addition to various other auto-racing competitions. Renovations to PIR began in February 2017 and are expected to be completed by November 2018. As of May 2017, PIR has not requested certification of its expenditures.

Table 1

Office of Tourism Revenues ^{1/}

<u>Sources of Funding</u>	<u>Fund</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>General Fund Appropriation</u>				
• General Fund appropriation to be used administering the Office of Tourism and promoting tourism	General Fund	\$7,103,700	\$7,112,000	\$7,112,000
<u>Sports and Tourism Authority</u>				
• Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302 - 2000)	Tourism Fund	7,952,700	7,739,400	7,240,400
<u>Tribal Gaming</u>				
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202 - 2002)	Tourism Fund	<u>6,461,600</u>	<u>6,382,600</u>	<u>6,461,600 ^{2/}</u>
Total		\$21,518,000	\$21,234,000	\$20,814,000

^{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 2018 are JLBC estimates.

Department of Transportation

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,548.0	4,552.0	4,552.0 ^{1/}
Personal Services	107,409,700	109,622,000	109,622,000
Employee Related Expenditures	48,370,900	49,677,500	52,874,500
Professional and Outside Services	8,267,800	10,787,100	11,260,100
Travel - In State	903,700	990,400	990,400
Travel - Out of State	155,400	145,100	145,100
Other Operating Expenditures	18,120,100	24,259,700	24,253,300
Equipment	14,911,200	8,542,400	9,505,700
OPERATING SUBTOTAL	198,138,800	204,024,200	208,651,100
SPECIAL LINE ITEMS			
Attorney General Legal Services	3,527,600	3,577,700	3,577,700
Driver Safety and Livestock Control	0	0	2,400,000
Flagstaff Building Equipment	0	0	2,530,000
Fraud Investigation	742,300	767,000	781,900
Highway Maintenance	126,911,000	140,593,200	147,108,200 ^{2/3/}
New Third Party Funding	942,700	629,600	634,900
Phoenix Area Freeway Lighting	0	1,500,000	1,500,000
Statewide Drainage Structures	0	4,300,000	4,300,000
Vehicles and Heavy Equipment	16,805,100	18,474,600	18,726,300
Grand Canyon Airport Projects	0	0	466,000
AGENCY TOTAL	347,067,500	373,866,300	390,676,100 ^{4/-11/}
FUND SOURCES			
General Fund	49,500	50,400	50,500
<u>Other Appropriated Funds</u>			
Air Quality Fund	74,200	161,700	161,700
Driving Under the Influence Abatement Fund	112,300	152,200	153,400
Highway Damage Recovery Account	0	0	3,000,000
Highway User Revenue Fund	641,600	649,700	656,100
Motor Vehicle Liability Insurance Enforcement Fund	1,065,700	1,308,700	1,332,400
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,326,900	1,868,300	1,897,400
State Aviation Fund	1,427,400	1,615,800	2,103,100
State Highway Fund	324,591,400	348,134,700	361,130,800
Transportation Department Equipment Fund	16,805,100	18,474,600	18,726,300
Vehicle Inspection and Certificate of Title Enforcement Fund	973,400	1,450,200	1,464,400
SUBTOTAL - Other Appropriated Funds	347,018,000	373,815,900	390,625,600
SUBTOTAL - Appropriated Funds	347,067,500	373,866,300	390,676,100
Other Non-Appropriated Funds	68,340,500	68,793,100	68,793,100
Federal Funds	2,262,100	1,664,700	1,664,700
TOTAL - ALL SOURCES	417,670,100	444,324,100	461,133,900

AGENCY DESCRIPTION — The Department of Transportation has jurisdiction over state roads, state airports, and the registration of motor vehicles and aircraft.

Operating Budget

The budget includes \$208,651,100 and 3,390 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$50,500
Air Quality Fund	161,700
Driving Under the Influence (DUI) Abatement Fund	153,400
Highway User Revenue Fund	459,000
Motor Vehicle Liability Insurance Enforcement Fund	1,233,500
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,337,400
State Aviation Fund	1,637,100
State Highway Fund	202,242,100
Vehicle Inspection and Certificate of Title Enforcement Fund	1,376,400

These amounts fund the following adjustments:

Vehicle and Heavy Equipment Replacement

The budget includes an increase of \$963,300 from the State Highway Fund in FY 2018 for vehicle and equipment replacement. This amount represents 19.5% of the total funding increase of \$4,940,000 for vehicle and equipment replacement, with the remaining 80.5% funded in the Highway Maintenance line item. These percentages

correspond to the portion of ADOT's vehicle and equipment fleet that are characterized by the operating budget compared to the Highway Maintenance line item.

The department annually replaces about \$15,000,000 of its Vehicle and Heavy Equipment vehicle fleet, which has a replacement value of \$299,300,000. The department finances those replacements through 5-year third-party lease agreements paid from the operating budget and Highway Maintenance line item. The department budgets a combined \$10,360,000 from those sources, which has in prior years been sufficient to cover lease agreements.

In FY 2018 and future fiscal years, ADOT anticipates an increased ongoing annual lease payment obligation of \$15,300,000. The total funding increase of \$4,940,000, of which \$963,300 comes from the operating budget and \$3,976,700 comes from the Highway Maintenance line item, combined with department's current \$10,360,000 budget provides ADOT with an annual amount of \$15,300,000 to meet its annual lease payment obligations.

Please see *Table 1* for a description of the vehicles and equipment the FY 2018 lease agreement will finance.

- 1/ Includes 1,162 OF FTE Positions funded from Special Line Items in FY 2018.
- 2/ Of the total amount appropriated, \$147,108,200 in FY 2018 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 - Department of Transportation Subaccount established by A.R.S. § 28-6547, on August 31, 2018. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 3/ In accordance with A.R.S. § 35-142.01, reimbursements for monies expended from the Highway Maintenance line item may not be credited to the account out of which the expenditure was incurred. The department shall deposit all reimbursements for monies expended from the Highway Maintenance line item in the Highway Damage Recovery Account established by A.R.S. § 28-6994. (General Appropriation Act footnote)
- 4/ It is the intent of the Legislature that the department not include any administrative overhead expenditures in duplicate driver license fees charged to the public. (General Appropriation Act footnote)
- 5/ Of the total amount appropriated, the Department of Transportation shall pay \$15,981,300 in FY 2018 from all funds to the Department of Administration for its Risk Management payment. (General Appropriation Act footnote)
- 6/ 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, 2018 for FY 2018. (General Appropriation Act footnote)
- 7/ The Department of Transportation shall contract with an independent third-party consultant for the duration of the Motor Vehicle Division legacy system replacement project. On or before February 1, 2018, the independent third-party consultant shall submit an annual progress report for review by the Joint Legislative Budget Committee. The annual report shall evaluate and assess the project's success in meeting and incorporating the tenets of the project investment justification, including the goals and objectives, technology approach, deliverables and outcomes, project scope and timeline. The report shall also address any potential project deficiencies as well as the incorporation of the Auditor General's April 2015 recommendations. (General Appropriation Act footnote)
- 8/ On or before July 31, 2017, the department shall report to the Director of the Joint Legislative Budget Committee on the cost to link local governments, state agencies and other users with the new Motor Vehicle Division automated system. (General Appropriation Act footnote)
- 9/ On or before August 1, 2017, the department shall report to the Director of the Joint Legislative Budget Committee on the state's share of fees retained by the Service Arizona vendor in the prior fiscal year. The report shall also include the amount spent by the Service Arizona vendor on behalf of this state in the prior fiscal year, as well as a list of the projects funded with those monies. (General Appropriation Act footnote)
- 10/ All expenditures made by the Department of Transportation for Attorney General Legal Services shall be funded only from the Attorney General Legal Services line item. Monies in Department of Transportation line items intended for this purpose shall be transferred to the Attorney General Legal Services line item before expenditure. (General Appropriation Act footnote)
- 11/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Table 1

	FY 2018 Order (\$ in Millions)	
Type	Quantity	Cost
Light Duty Vehicles	68	\$ 1.7
Medium Duty Trucks	16	1.1
Heavy Duty Trucks	11	2.2
Snow Removal Equipment	25	7.9
Trailers and Other Equipment	<u>52</u>	<u>2.1</u>
Total	172	\$15.0

Civil Rights Compliance

The budget includes an increase of \$473,000 from the State Highway Fund in FY 2018 for civil rights compliance. This amount funds the services, travel, and resources of 5 contractors responsible for managing the department's corrective action plans for federal compliance with Title VI of the Civil Rights Act and the Americans with Disabilities Act. In response to federal audit findings, the contractors will monitor and train the department's internal divisions as well as the external legal entities working with ADOT on federally-assisted projects.

One-Time Named Claimants Funding

The budget includes a decrease of \$(6,407) from the State Highway Fund in FY 2018 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Statewide Adjustments

The budget includes an increase of \$3,197,000 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	100
DUI Abatement Fund	1,200
Highway User Revenue Fund	6,400
Motor Vehicle Liability Insurance Enforcement Fund	23,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	29,100
State Aviation Fund	21,300
State Highway Fund	3,101,900
Vehicle Inspection and Certificate of Title Enforcement Fund	13,300

(Please see the Agency Detail and Allocations section.)

Attorney General Legal Services

The budget includes \$3,577,700 from the State Highway Fund in FY 2018 for Attorney General Legal Services. This amount is unchanged from FY 2017.

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.

Driver Safety and Livestock Control

The budget includes \$2,400,000 from the State Highway Fund in FY 2018 for a new Driver Safety and Livestock Control line item. This amount funds the following adjustments:

Cattle Guard Grill Replacement and Repair

The budget includes an increase of \$2,400,000 from the State Highway Fund in FY 2018 for replacement and repair of cattle guard grills.

To prevent livestock movement from harming driver and bicyclist safety, ADOT has installed over 12,800 cattle guard grills across the state. The grills are designed to discourage livestock passage while not impeding road users. With this funding, the department will repair and maintain 1,920 grills in FY 2018. Of this amount, \$1,600,000 is one-time for the grills in most need of repair. The remaining \$800,000 is ongoing funding to annually maintain and repair about 5% of statewide grills.

Flagstaff Building Equipment

The budget includes \$2,530,000 from the State Highway Fund in FY 2018 for Flagstaff Building Equipment. This amount funds the following adjustments:

Regional Office Furnishing and Equipment

The budget includes a one-time increase of \$2,530,000 from the State Highway Fund in FY 2018 for furnishing and equipment for ADOT's new Northcentral District Regional Office in Flagstaff.

Through an agreement with the City of Flagstaff and a real-estate developer, ADOT has exchanged its existing Northcentral office and regional lab located on Milton Road for a private sector building on University Drive, which will be renovated as the department's new office and regional lab. The funding provides equipment for the new office, including furniture for workstations, offices, and conference rooms; security systems; and information technology.

Fraud Investigation

The budget includes \$781,900 and 10 FTE Positions from the State Highway Fund in FY 2018 for Fraud Investigation. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$14,900 from the State Highway Fund in FY 2018 for statewide adjustments.

Monies in this line item are used for investigation of fraudulent driver licenses and motor vehicle documents.

Highway Maintenance

The budget includes \$147,108,200 and 932 FTE Positions in FY 2018 for Highway Maintenance. These amounts consist of:

Highway Damage Recovery Account	3,000,000
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	560,000
State Highway Fund	143,548,200

These amounts fund the following adjustments:

Appropriate Highway Damage Reimbursements

The budget includes a decrease of \$(2,000,000) from the State Highway Fund in FY 2018 for a shift to the new Highway Damage Recovery Account (*see below*).

Highway Damage Recovery Account

The budget includes an increase of \$3,000,000 from the Highway Damage Recovery Account in FY 2018. ADOT annually repairs about \$3,000,000 in liable third-party highway damage. On average, \$1,000,000 of that \$3,000,000 is reimbursed to the current fiscal year Highway Maintenance line item appropriation. The reimbursement serves to create additional spending capacity. The remaining \$2,000,000 is typically paid to the state in the following fiscal year. These monies cannot be used to reimburse the line item. They are instead deposited to the State Highway Fund.

As permanent law, the FY 2018 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 307) establishes an appropriated Highway Damage Recovery Account as a subaccount within the State Highway Fund for all monies recovered for damage caused to state highways and related property. As a result, ADOT will be able to expend all damage reimbursements rather than depositing some of them into the State Highway Fund. A footnote prevents ADOT from crediting same-year

reimbursements against the Highway Maintenance appropriation.

Highway Maintenance Workload

The budget includes an increase of \$451,800 from the State Highway Fund in FY 2018 to maintain and operate 149 new lane miles.

Vehicle and Heavy Equipment Replacement

The budget includes an increase of \$3,976,700 from the State Highway Fund in FY 2018 for vehicles and heavy equipment replacement. This amount represents the Highway Maintenance portion of the \$4,940,000 appropriated for increased annual lease payment obligations on vehicles and heavy equipment. (*Please see the Operating Budget section for more information.*)

Statewide Adjustments

The budget includes an increase of \$1,086,500 from the State Highway Fund in FY 2018 for statewide adjustments.

In addition to the \$147,108,200 included for Highway Maintenance, the Proposition 400 Maricopa County half-cent sales tax extension makes another \$13,300,000 available in FY 2018 for landscape maintenance, trash pick-up, sweeping, and litter education from the non-appropriated Maricopa Regional Area Road Fund.

Monies in this line item are used to maintain the state highway system, including pavements, bridges, landscaping, drainage, signals, lights, fences, signs, striping, and snow removal. The monies also fund the freeway management system and the traffic operations center.

New Third-Party Funding

The budget includes \$634,900 and 20 FTE Positions in FY 2018 for New Third-Party Funding. These amounts consist of:

Highway User Revenue Fund	197,100
Motor Vehicle Liability Insurance Enforcement Fund	98,900
State Highway Fund	250,900
Vehicle Inspection and Certificate of Title Enforcement Fund	88,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$5,300 for statewide adjustments. This amount consists of:

State Highway Fund	4,400
Vehicle Inspection and Certificate of Title Enforcement Fund	900

Monies in this line item provide funding to review authorized third-party transactions for accuracy. The funding also provides support for authorized third-parties, which allow customers to receive Motor Vehicle Division services at non-ADOT locations.

Phoenix Area Freeway Lighting

The budget includes \$1,500,000 from the State Highway Fund in FY 2018 for Phoenix Area Freeway Lighting. This amount is unchanged from FY 2017.

Monies in this line item fund the maintenance of approximately 15,000 freeway lights in the Phoenix Metropolitan area.

Statewide Drainage Structures

The budget includes \$4,300,000 from the State Highway Fund in FY 2018 for statewide drainage structures. This amount is unchanged from FY 2017.

Monies in this line item fund the removal of silt in pipes, culverts and drainage structures. Drainage structures prevent flooding and degradation of the state highway system.

Vehicles and Heavy Equipment

The budget includes \$18,726,300 and 200 FTE Positions from the Transportation Department Equipment Fund in FY 2018 for Vehicles and Heavy Equipment. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$251,700 from the Transportation Department Equipment Fund in FY 2018 for statewide adjustments.

Monies in this line item allow the department to maintain and repair the department's vehicle and equipment fleet.

Grand Canyon Airport Projects

The budget includes \$466,000 from the State Aviation Fund in FY 2018 for a new Grand Canyon Airport Projects line item. This amount funds the following adjustments:

Grand Canyon Airport Improvements

The budget includes an increase of \$466,000 from the State Aviation Fund for a number of operational and security improvements to the Grand Canyon Airport.

Of this amount, \$265,000 is for one-time projects, which includes an airplane monitoring system to ensure proper charging of customer fees; firefighter equipment replacement; and security system improvements, particularly in regards to malfunctioning gates. The remaining \$201,000 is ongoing, which supports maintenance of the monitoring system, continued replacement of firefighter equipment, and runway maintenance.

These amounts are in addition to the \$1,637,100 from the State Aviation Fund for Grand Canyon Airport in the operating budget.

Other Issues

FY 2017 Supplemental

The budget includes an increase of \$6,407 from the State Highway Fund in FY 2017 to pay a named claimant bill related to ADOT. The supplemental appropriation was made in Laws 2017, Chapter 17.

Additional Legislation

Ignition Interlock Device Fund

Laws 2017, Chapter 331 establishes the appropriated Ignition Interlock Device Fund. The fund will earn revenues from a new IID service provider installation fee, and will be used to administer ADOT's Ignition Interlock Program. ADOT estimates yearly revenues of \$400,000, which would fund the department's MVD Interlock Program staffing of 6 FTE Positions. Those FTE Positions are currently funded with \$105,200 from the DUI Abatement Fund and \$207,800 from the State Highway Fund.

Abandoned Vehicle Administration Fund

Laws 2017, Chapter 249 establishes the non-appropriated Abandoned Vehicle Administration Fund. Monies in the fund are to be used for partial reimbursement to towing companies. The fund will earn revenues from 20% of abandoned vehicle fees, regardless of where the vehicle was abandoned. Additionally, ADOT is required to establish a system ensuring a monthly payment system for reimbursements from the fund to towing companies. Chapter 249 permits ADOT to adjust these fees.

Light Rail Administrative Costs

Laws 2017, Chapter 44 removes the requirement that a light rail transit operator pay ADOT's cost of administering safety oversight of light rail transit systems. This legislation ensures compliance with a change in federal regulations that requires legal and financial independence between a State Safety Oversight entity and a rail transit system provider. ADOT currently pays the rail transit state safety oversight grant match through an increase of \$88,000 from the Air Quality Fund included in the FY 2017 budget.

Jet Fuel Tax Distribution

As permanent law, the FY 2018 Revenue BRB (Laws 2017, Chapter 312) distributes 100% of jet fuel tax to the State Aviation Fund and distributes a portion of the Aircraft License Tax to the General Fund and local governments to make the change revenue neutral. This distribution change is in response to a December 2014 Federal Aviation Administration policy amendment, which states that jet fuel tax must be used only for certain aviation-related purposes. Prior law distributed excise jet fuel tax 40% to the transaction privilege tax distribution base and 60% to the General Fund. It also distributed use jet fuel tax 100% to the General Fund. Those distributions did not comply with the federal policy change.

Real ID Extension

Laws 2015, Chapter 294 required ADOT to comply with federal driver license standards in the REAL ID Act of 2005. Absent this legislative action, Arizona driver licenses would have no longer been accepted at federally regulated facilities, such as airports and federal buildings. By issuing Arizonans a voluntary travel ID that will be available as both a driver license and identification card, the new federal documentation requirements will be met. To facilitate Arizona's compliance with federal law while ADOT develops the new travel IDs, the U.S. Department of Homeland Security granted Arizona an extension and will accept existing Arizona driver licenses until September 30, 2020.

Special Plates

In order to establish a special plate, a statutorily designated entity must pay a \$32,000 implementation fee. In general, 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 2016, the special plate program generated \$2,453,400 for charities, \$6,710,000 for state agencies including universities, \$6,800 for HURF and \$3,169,800 for the State Highway Fund, for total revenues of \$12,340,000.

As shown in *Table 2*, there are 54 special plate types with 407,723 vehicles supporting special plate charities. Revenue for many of the special plates is combined in ADOT's Statewide Special Plates Fund. Financial information for the rest of the special plates not included in ADOT's Statewide Special Plates Fund is found in individual agencies. When a state agency oversees a special plate fund, it appears in that agency's budget. If not, it appears in ADOT's Statewide Special Plate Fund.

The following 3 special plates were added in 2017:

- Science Education Special Plates (Laws 2017, Chapter 75)
- Collector Car Auction Special Plate (Laws 2017, Chapter 110)
- Active Duty Military Installation Support Special Plate (Laws 2017, Chapter 110)

Table 2

Special License Plates ^{1/2/3/}

<u>Name</u>	<u>Included in Statewide Special Plates Fund</u>		<u>Not Included in Statewide Special Plates Fund</u>	
	<u>Number of Plates Issued in 2016</u>		<u>Name</u>	<u>Number of Plates Issued in 2016</u>
AZ Professional Football Club	70,381		Veteran	73,320
Military Support/Scholarship	35,643		AZ Highways	26,669
AZ Centennial	9,925		Collegiate - University of Arizona	23,588
AZ Professional Baseball Club	9,178		Collegiate - AZ State University	17,760
Agricultural Youth Organization	8,772		Child Abuse Prevention	15,111
Transplantation Awareness	5,148		Families of Fallen Police Officers	14,289
AZ Professional Basketball Club	4,345		Spaying and Neutering of Animals	13,914
AZ Professional Hockey Club	3,032		Breast & Cervical Cancer	11,613
Extraordinary Educators	1,861		Golden Rule	11,367
Keep AZ Beautiful (anti-litter)	1,586		In God We Trust	10,027
Childhood Cancer Research	1,251		Environmental	8,386
AZ Motorsports Commemorative	978		AZ Sportsmen for Wildlife	8,307
Volunteer Firefighters	970		Fire Fighter	4,248
Hunger Relief	948		Collegiate - NAU	2,716
AZ Masonic Fraternity	702		Navajo Nation	2,236
Global Graduate Management	448		Character Education	1,756
AZ Public Broadcast Television	366		Women Veteran	1,552
Youth Development Organization	324		Choose Life	1,506
Health Sciences Educational	196		Fraternal Order of Police	841
Girls' Youth Organization	124		San Carlos Apache	516
AZ Professional Golf	113		White Mountain Apache Tribe	513
Collegiate - Community College	0		Gold Star Family	420
Regionally Accredited Institution	0		Farm Vehicle	392
Historic Federal Highway	0		University of Phoenix	135
First Responder	0		AZ Historical Society	125
Play Unified	<u>0</u>		National Guard	119
			Legion of Valor	6
			Don't Tread on Me	<u>0</u>
Total	156,291		Total	251,432

^{1/} Excludes 218,469 motorcycle safety special plates and 85,879 off-highway vehicle decals.

^{2/} Other special plates excluded: Amateur Radio Operator, Personalized Street Rod, Former Prisoner of War, Purple Heart Medal Recipient, Disability, Hearing Impaired, Classic Car, Congressional Medal of Honor, Energy Efficient (alternative fuel), Historic Vehicle, Honorary Foreign Consul, Horseless Carriage, Midwestern University, Pearl Harbor Survivor, and U.S. Marine Corps.

^{3/} The Emergency Medical Services and Multiple Sclerosis Awareness special plates did not raise sufficient funds to implement the plates.

State Treasurer

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.4	30.4	31.4
Personal Services	1,619,200	1,744,400	1,744,400
Employee Related Expenditures	629,700	771,400	807,700
Professional and Outside Services	96,800	52,000	52,000
Travel - In State	1,100	2,000	2,000
Travel - Out of State	4,700	5,000	5,000
Other Operating Expenditures	249,200	259,500	584,500
Equipment	89,900	0	0
OPERATING SUBTOTAL	2,690,600	2,834,300	3,195,600
SPECIAL LINE ITEMS			
Virtual Border Fence	219,200	0	0
Justice of the Peace Salaries	1,205,100	1,205,100	1,205,100
Law Enforcement/Boating Safety Fund Grants	1,929,600	2,183,800	2,183,800
AGENCY TOTAL	6,044,500	6,223,200	6,584,500 ^{1/}
FUND SOURCES			
General Fund	1,205,100	1,205,100	1,205,100
<u>Other Appropriated Funds</u>			
Border Security Trust Fund	219,200	0	0
Law Enforcement and Boating Safety Fund	1,929,600	2,183,800	2,183,800
State Treasurer Empowerment Scholarship Account Fund	79,700	79,400	304,400
State Treasurer's Management Fund	196,600	195,600	295,600
State Treasurer's Operating Fund	2,414,300	2,559,300	2,595,600
SUBTOTAL - Other Appropriated Funds	4,839,400	5,018,100	5,379,400
SUBTOTAL - Appropriated Funds	6,044,500	6,223,200	6,584,500
Other Non-Appropriated Funds	4,342,400	4,445,600	4,445,600
TOTAL - ALL SOURCES	10,386,900	10,668,800	11,030,100

AGENCY DESCRIPTION — The State Treasurer is an elected Constitutional Officer. The primary responsibilities of the office are to receive and keep custody over all monies belonging to the state that are not required to be kept by another entity, to pay warrants of the Arizona Department of Administration, and to keep an account of all monies received and disbursed. The office also invests state monies and operates the Local Government Investment Pool (LGIP) for the benefit of participating units of local government.

Operating Budget

The budget includes \$3,195,600 and 31.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
State Treasurer Empowerment Scholarship Account (ESA) Fund	\$304,400
State Treasurer's Management Fund	295,600
State Treasurer's Operating Fund	2,595,600

These amounts fund the following adjustments:

Increased Office Workload

The budget includes an increase of \$325,000 and 1 FTE Position for an increased office workload. This amount consists of:

State Treasurer ESA Fund	225,000
State Treasurer's Management Fund	100,000

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

These monies will provide additional resources for the Treasurer's expanded responsibilities associated with ESA administration, new industry compliance audit requirements, internal financial management system upgrades, Arizona Financial Information System (AFIS) programming, and information technology upgrades. The additional FTE Position will fill a range of office needs, including information technology enhancement, ESA processing, and AFIS programming.

Statewide Adjustments

The budget includes an increase of \$36,300 from the State Treasurer's Operating Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

The State Treasurer ESA Fund is funded with monies retained from students' ESAs pursuant to A.R.S. § 15-2402C. That law allows the Arizona Department of Education (ADE) to retain 5% of each student's ESA funding for program administration, which for FY 2018 is estimated to be as much as \$4,120,500 (an estimated \$82,409,300 ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer one-fifth of the 5% to the State Treasurer ESA Fund for the costs of ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. *(Please see the Arizona Department of Education narrative for more information on ESAs.)*

Justice of the Peace Salaries

The budget includes \$1,205,100 from the General Fund in FY 2018 for Justice of the Peace (JP) salaries. This amount is unchanged from FY 2017.

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 year 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.

The FY 2017 budget included a salary increase for Superior Court judges beginning with a 1.5% increase in January

2017 and a further 1.5% increase in January 2018. Justice of the Peace salaries are based on Superior Court judges' salaries and will increase correspondingly, thereby increasing the amount of salary paid for by the state. Prior to the increase, the estimated total state share of Justice of the Peace salaries was \$1,107,700 for FY 2017. When including the additional funds for a 3% salary increase, it is estimated that the \$1,205,100 FY 2018 JP salary appropriation will be sufficient to pay the state's share of JP salaries. As a result, the budget includes no additional funding for Justice of the Peace salaries.

Law Enforcement/Boating Safety Fund Grants

The budget includes \$2,183,800 from the Law Enforcement and Boating Safety Fund (LEBSF) in FY 2018 for the administration of the Law Enforcement/Boating Safety Fund grants. This amount is unchanged from FY 2017.

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 2016 and year-to-date FY 2017 allocations are included in *Table 1*. The distributions are less than the appropriations due to insufficient revenues.

Table 1

Allocation of LEBSF Grants

<u>County</u>	<u>FY 2016</u>	<u>FY 2017 Thru May 17th</u>
Apache	\$ 56,000	\$ 50,000
Coconino	180,600	161,000
Gila	184,800	164,800
La Paz	346,200	308,600
Maricopa	362,600	323,300
Mohave	547,000	487,800
Navajo	64,000	57,000
Yuma	<u>188,300</u>	<u>167,800</u>
Total	\$1,929,500	\$1,720,300

Other Issues

Additional Legislation

Special Sporting Event Promotion

Laws 2016, Chapter 366 provides an annual General Fund appropriation of \$1,500,000 from FY 2022 through FY 2051 to the State Treasurer for distribution to the Office of Tourism if certain conditions are met. The funds are to

be used to promote an auto racing sporting event. Prior to the release of any monies, between December 31, 2016 and December 31, 2020, the eligible auto racing sporting event must spend at least \$100,000,000 on land acquisitions, construction, improvements, or renovations of their facilities. Once these investments are made, the bill requires the eligible auto racing sporting event to receive JLBC certification of their expenditures. After certification is received, the Treasurer is then appropriated \$1,500,000 in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, or a total General Fund cost of \$45,000,000.

Additionally, the bill requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year.

In November 2016, the parent company of Phoenix International Raceway (PIR), International Speedway Corporation, announced plans to make \$178.0 million in renovations to the raceway. PIR hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to PIR began in February 2017 and are expected to be completed by November 2018. As of May 2017, PIR has not requested certification of its expenditures.

Governor's Office on Tribal Relations

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	22,400	28,000	28,000
Employee Related Expenditures	9,900	10,600	11,100
Professional and Outside Services	100	0	0
Travel - In State	1,700	1,500	1,500
Travel - Out of State	500	0	0
Other Operating Expenditures	22,200	17,400	17,400
AGENCY TOTAL	56,800	57,500	58,000^{1/}
FUND SOURCES			
General Fund	56,800	57,500	58,000
SUBTOTAL - Appropriated Funds	56,800	57,500	58,000
Other Non-Appropriated Funds	21,000	13,500	13,500
TOTAL - ALL SOURCES	77,800	71,000	71,500

AGENCY DESCRIPTION — The agency assists and supports tribal nations and communities and enhances government-to-government relations between the tribal nations in this state.

Operating Budget

The budget includes \$58,000 and 3 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$500 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Arizona Board of Regents

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,509,500	1,475,100	1,475,100
Employee Related Expenditures	527,500	545,500	567,600
Professional and Outside Services	42,100	55,000	55,000
Other Operating Expenditures	273,400	276,900	276,900
OPERATING SUBTOTAL	2,352,500	2,352,500	2,374,600
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	0
Student Financial Assistance	10,041,200	10,041,200	0 ^{1/}
Western Interstate Commission Office	141,000	145,000	145,000
WICHE Student Subsidies	4,090,000	4,086,000	4,086,000
AGENCY TOTAL	21,928,400	21,928,400	6,909,300
FUND SOURCES			
General Fund	21,928,400	21,928,400	6,909,300 ^{2/3/}
SUBTOTAL - Appropriated Funds	21,928,400	21,928,400	6,909,300
Other Non-Appropriated Funds	4,629,500	8,089,200	6,039,200
Federal Funds	2,357,300	1,168,200	56,700
TOTAL - ALL SOURCES	28,915,200	31,185,800	13,005,200

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 budget includes \$2,374,600 and 25.9 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$22,100 from the General Fund in FY 2018 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Arizona Teachers Incentive Program

The budget includes \$90,000 from the General Fund in FY 2018 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2017.

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 2016, ATIP distributed

- 1/ 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. The plan shall include the total revenue and expenditure amounts from all tuition and student fee revenues, including base tuition, differential tuition, program fees, course fees, summer session fees, and other miscellaneous and mandatory student fee revenues that have previously been excluded from university reported tuition and fee revenues. (General Appropriation Act footnote)
- 2/ When determining any statewide adjustments, the Joint Legislative Budget Committee staff shall use the overall allocation of state General Fund and appropriated tuition monies for each university in determining that university's specific adjustment. (General Appropriation Act footnote)
- 3/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

\$50,000 in loans among 10 students, as well as \$40,000 to the UA College of Education for deaf and blind instructional resources.

Arizona Transfer Articulation Support System

The budget includes \$213,700 from the General Fund in FY 2018 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2017.

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 2016 and are projected to also contribute \$277,200 in both FY 2017 and FY 2018.

Performance Funding

The budget includes no monies for performance funding in FY 2018. This amount funds the following adjustments:

Performance Funding Reallocation

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2018 for the reallocation of performance funding monies from ABOR to the universities. The budget appropriates \$5,000,000 directly to the universities based on the amount each received via ABOR in FY 2017:

- ASU - Tempe/Downtown Phoenix (DPC): \$2,348,800
- ASU - East: \$165,300
- ASU - West: \$190,900
- NAU: \$1,090,000
- UA - Main: \$1,205,000

These amounts are included in each university's operating budget in FY 2018 and are not designated as performance funding monies.

The budget no longer includes the requirement that ABOR adopt a performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, nor that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities. *(Please see the FY 2017 Appropriations Report for more information.)*

Student Financial Assistance

The budget includes no monies from the General Fund in FY 2018 for Student Financial Assistance. This amount funds the following adjustments:

AFAT Reallocation

The budget includes a decrease of \$(10,041,200) from the General Fund in FY 2018 for the reallocation of state funding for the Arizona Financial Aid Trust (AFAT) from ABOR to the universities. The budget allocates \$10,041,200 directly to the universities based on each institution's share of student fees levied for AFAT in FY 2016, as shown in *Table 1*.

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The AFAT fee is 1% of the full-time resident undergraduate tuition rate, or \$76-\$107 in FY 2017 on the main campuses, depending on the university. All students pay roughly the same fee, except part-time students, who pay half the regular fee.

Table 1
FY 2018 General Fund AFAT Allocations

	FY 2016 AFAT		FY 2018 AFAT
	<u>Student Fees Collected</u>		<u>General Fund</u> ^{1/}
ASU	\$9,109,200	59.6%	\$5,985,800
NAU	\$2,017,900	13.2%	\$1,326,000
UA	<u>\$4,153,700</u>	<u>27.2%</u>	<u>\$2,729,400</u>
Total	\$15,280,800	100.0%	\$10,041,200

^{1/} Total state General Fund AFAT contribution in FY 2018 allocated to each university based on its share of the overall AFAT student fees levied systemwide in FY 2016. The FY 2018 Higher Education BRB continues to suspend the statutory requirement that the state provide a 2:1 match of AFAT student fee collections.

The FY 2018 Higher Education Budget Reconciliation Bill (BRB) (Laws, 2017, Chapter 310) continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2018. Based on student fees contributed to AFAT in FY 2016, the state's match would have been \$30,561,600, or an increase of \$20,520,400 over the current appropriation in FY 2018.

Each university retains 25% of its annual AFAT student fees and state contributions in an AFAT endowment account. The remaining 75% of the student fees and state contributions, as well as 75% of the endowment's annual interest earnings, are used to provide immediate assistance for needy in-state students. In FY 2016, AFAT disbursed \$20,284,852. *(Please see Table 7 for additional information on financial aid.)*

Western Interstate Commission Office

The budget includes \$145,000 from the General Fund in FY 2018 for the Western Interstate Commission Office. This amount is unchanged from FY 2017.

Monies in this line item pay the state's share of administrative expenditures for the Western Interstate Commission on Higher Education (WICHE), in accordance with A.R.S. § 15-1742. The WICHE central office sets the administrative fee.

WICHE Student Subsidies

The budget includes \$4,086,000 from the General Fund in FY 2018 for WICHE student subsidies. This amount is unchanged from FY 2017.

Monies in this line item provide subsidies to Arizona students participating in the WICHE Professional Student Exchange Program (PSEP). Since the Arizona University System does not currently offer programs in dentistry, optometry, osteopathy, podiatry, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities.

In FY 2017, ABOR is providing subsidies to 166 Arizona students, which is (5) fewer than FY 2016. Participating students receive admissions preference and subsidized tuition. A.R.S. § 15-1745 requires graduates to practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support. Participants who fail to meet their service requirements must repay 100% of their subsidies, plus interest.

The WICHE central office determines subsidy amounts for each program through negotiations with participating institutions. As rough guidance, WICHE subsidies are intended to cover the difference between resident and non-resident tuition at a public university or approximately half the private university tuition rate.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Additional Legislation
- FY 2015 Operating Appropriation
- Land Trust Funds
- Tuition Revenues
- 2003 Research Infrastructure Refinancing
- One-Time Funding

- University Capital Investment Program
- Intellectual Property & Technology Transfer Royalties
- University System Summary Tables

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, universitywide costs are projected to increase by \$11,999,100 in FY 2019 above FY 2018 and \$520,000 in FY 2020 above FY 2019.

These estimates include the universities' appropriations for the University Capital Investment Program, as established in A.R.S. § 15-1671 by Laws 2017, Chapter 328. The appropriations will begin in FY 2019 at \$27,000,000 systemwide and will grow by 2% or inflation each year thereafter through FY 2043. *(Please see the University Capital Investment Program narrative in the Capital Outlay - ABOR Building System section for more information.)*

The estimates for FY 2019 are decreased by \$(15,000,000) for the removal of one-time funding. The estimates also include a \$(900) decrease in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 compared to FY 2018 and a \$(19,900) decrease in FY 2020 below FY 2019. *(Please see the 2003 Research Infrastructure Refinancing narrative for more information.)*

Additional Legislation

Arizona Teacher Academy

The FY 2018 Higher Education Budget BRB (Laws 2017, Chapter 310) establishes A.R.S. § 15-1655, which instructs ABOR and the universities to develop an Arizona Teacher Academy in FY 2018. The academy is intended to encourage more Arizona residents to enter the teaching profession and commit to teach in Arizona public schools. The academy will grant an annual waiver for all tuition and fees associated with enrollees' program of study in exchange for subsequently teaching in an Arizona public school 1 year for each year they received a tuition waiver.

The law does not establish the number of participants or provide additional funding to the universities for the program, but requires ABOR to annually submit a report on the number of students enrolled in the academy, the number subsequently teaching to fulfill their waiver agreement, and the number who subsequently fail to satisfy their teaching requirements.

Resident Student & Cost Containment Reports

The FY 2018 Higher Education BRB also establishes A.R.S. § 15-1650.03, which requires that ABOR conduct a comprehensive study of the cost of educating a full-time resident undergraduate student by December 15, 2017, and every 5 years thereafter. ABOR must include in the report: 1) the use of instructional fees, 2) differentiated costs between programs of study, 3) the costs of faculty and administration, differentiating between time spent on instruction vs. research activities 4) the allocation of tuition dollars, including the amount not directly attributable to instructional costs, and 5) marginal and average student costs, including for online programs.

In addition, ABOR must annually submit a cost-containment report for each university including 1) historical tuition and fee rates, 2) growth of faculty and administrative costs, 3) actions taken to reduce costs and the resulting savings, 4) allocations of faculty time between instruction and research, 5) return on investment of the use of tuition monies for non-instructional purposes, 6) the ability to reduce unnecessary coursework, and 7) the development of new, nontraditional, and less expensive education programs.

Contract Lobbyist Ban

Laws 2017, Chapter 315 establishes A.R.S. § 15-1650.04, which prohibits ABOR and the universities from using state General Fund monies to contract with individuals or entities for lobbying services.

This law makes permanent the effect of footnotes in the individual university sections of the FY 2018 General Appropriation Act, which also prohibit the universities from using their General Fund appropriations to contract with individuals or entities for lobbying services.

FY 2015 Operating Appropriation

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 budget incorporates these amounts into the university base budgets in FY 2018. As a result, this funding does not appear separately in the FY 2018 General Appropriation Act.

Land Trust Funds

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,” pursuant to Article X, Section 7 of the Arizona Constitution.

ABOR distributes state land trust monies to the universities from 6 funds. These distributions are allocated to the universities in accordance with A.R.S. § 15-1662, 15-1663, and ABOR Policy 3-606. The universities' land trust monies are non-appropriated. ABOR may expend them “as it deems expedient,” with 1 exception: the Universities Land Fund. This fund is comprised of the University Land Code and the UA Land - 1881 Fund. All proceeds in the Universities Land Fund, including the UA Land - 1881 Fund, are distributed proportionately among the 3 universities based upon the total student credit hours in the fall semester of the previous year. The Universities Land Fund provides matching funds for the interest earned on nonpublic endowment monies donated to attract and retain faculty, otherwise known as the Eminent Scholars Program.

The funds will have estimated revenues of \$11,462,400 in FY 2018. (Please see the Land Department narrative for more information.)

Table 2

State Land Trust Revenues: Universities^{1/}

	<u>FY 2015</u>	<u>FY 2018</u>
Military Institute	\$ 83,800	\$ 121,200
Normal Schools	296,600	571,800
A&M Colleges	445,100	913,900
School of Mines ^{2/}	499,800	1,056,400
Universities Land Fund	3,834,800	8,787,100
University Land Code	2,175,400	2,682,500
U of A Land - 1881	<u>1,659,400</u>	<u>6,116,600</u>
Total	\$ 5,160,100	\$ 11,462,400

^{1/} Includes income from the Treasurer's distribution and lease revenues from the universities' state land trust property.

^{2/} Only the University of Arizona receives monies from the School of Mines Fund

Tuition Revenues

The FY 2017 Higher Education BRB (Laws 2016, Chapter 130) amended A.R.S. § 15-1626A to require the universities to deposit tuition and fee revenues into separate tuition and fee revenue subaccounts for each university beginning in FY 2019.

Currently, statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR pursuant to A.R.S. § 15-1626A. These “locally” retained tuition monies are considered non-appropriated and are deposited into accounts labeled as “Designated” funds. The Designated Fund for each

university includes the retained tuition and fees as well as monies from other sources.

Any remaining tuition collections are remitted to the Treasurer before being disbursed back to the universities into "Collections" funds as part of the appropriated budget. As with the non-appropriated tuition monies in the Designated Funds, tuition revenues in the appropriated Collections Funds are mixed with other revenue sources such as state land trust monies and miscellaneous receipts. While Financial Aid and Debt Service are primarily non-appropriated, general operating expenses appear in both appropriated and non-appropriated budgets.

By requiring that the universities keep tuition and fee monies separate from other revenue sources, the FY 2017 Higher Education BRB was intended to make the university funding structure more transparent. The FY 2017 Higher Education BRB also amended A.R.S. § 55-146 to eliminate the requirement that the universities remit appropriated tuition revenues to the Treasurer, also effective beginning FY 2019. This provision does not change the current split between appropriated and non-appropriated tuition monies.

FY 2018 gross tuition and fees as reported in the tuition schedules of the annual university budget requests are projected to be \$2.4 billion. Of this amount, \$1.3 billion is appropriated while \$1.1 billion is non-appropriated. These amounts exclude revenues from course fees, most summer session revenues, non-degree, extended education, personalized learning, mandatory fees and

other miscellaneous student fees. The excluded revenues equaled approximately \$417 million in FY 2017 based on additional data provided by ABOR.

A FY 2018 General Appropriation Act footnote requires that ABOR include all tuition and fee revenues, including the previously excluded categories, in its FY 2018 report.

The reported gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities would constitute net tuition. The universities provided \$622.3 million in tuition waivers and awards in FY 2016.

2003 Research Infrastructure Refinancing

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated for FY 2008 to FY 2031 monies to the universities each year for lease-purchase capital financing of research infrastructure projects such as installations and facilities for the continuance and growth of scientific and technological research activities.

The budget includes an increase of \$4.2 million from the General Fund in FY 2018 to adjust appropriations for research infrastructure lease-purchase payments to the universities' actual debt service obligations.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY

Table 3

FY 2018 – 2031 Research Infrastructure Appropriations

<u>Fiscal Year</u>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	<u>Total</u>
2018	\$ 13,481,000	\$ 5,896,500	\$ 14,249,300	\$ 33,626,800
2019	13,478,700	5,896,200	14,251,000	33,625,900
2020	13,456,300	5,899,500	14,250,200	33,606,000
2021	13,458,700	4,879,500	14,251,500	32,589,700
2022	13,451,900	5,039,800	14,248,900	32,740,600
2023	13,462,100	5,301,500	14,252,500	33,016,100
2024	13,468,200	5,302,900	14,255,300	33,026,400
2025	13,459,300	4,885,500	14,247,300	32,592,100
2026	13,453,900	4,884,500	14,248,400	32,586,800
2027	13,450,100	4,884,300	14,251,300	32,585,700
2028	13,436,200	4,894,000	14,254,100	32,584,300
2029	13,430,800	4,888,400	14,251,500	32,570,700
2030	13,423,500	4,892,000	14,252,500	32,568,000
2031	<u>13,428,800</u>	<u>4,889,300</u>	<u>14,255,800</u>	<u>32,573,900</u>
2018 - 2031	188,339,500	72,433,900	199,519,600	460,293,000

^{1/} FY 2018 – 2031 research infrastructure General Fund appropriations as specified in A.R.S. § 15-1670, as amended by the FY 2017 Higher Education BRB.

2018 to FY 2031 research infrastructure appropriations to correspond to the universities' current debt service schedules. (Please see Table 3 for more information.)

The \$4.2 million increase in the FY 2018 budget reflects the additional costs in FY 2018 beyond those of FY 2017. Of this amount, the General Fund appropriations are adjusted \$2,290,700 for ASU, \$1,649,700 for NAU, and \$270,900 for UA in FY 2018 compared to FY 2017.

The average annual savings of the new debt service appropriation for all remaining payments compared to the original appropriation is \$(1.7) million. The majority of the savings come from ASU and NAU. (Please see *Capital Outlay - Arizona Board of Regents* section for additional information.)

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2018 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects.

One-Time Funding

Section 131 of the FY 2018 General Appropriation Act appropriates \$15,000,000 to the universities from the General Fund in FY 2018 for one-time operating expenditures or capital improvements. Of this amount, \$7,639,500 is appropriated to ASU, \$3,202,800 is appropriated to NAU, and \$4,157,700 is appropriated to UA. Of the amounts appropriated to ASU and UA, \$1,000,000 from each is restricted for use toward operating expenditures of the School of Civic and Economic Thought and Leadership and the Center for the Philosophy of Freedom, respectively.

Each university's allocation of the \$15,000,000 was determined by its share of the systemwide resident student enrollment headcount for fall 2016:

- ASU: 49,307 (50.9%)
- NAU: 20,672 (21.3%)
- UA: 26,835 (27.7%)
- **Total: 96,814 (100%)**

The FY 2017 budget included \$19,000,000 of one-time funding for the universities in FY 2017.

University Capital Investment Program

Laws 2017, Chapter 328 establishes A.R.S. § 15-1671, which provides General Fund appropriations from FY 2019 - FY 2043 for new university research facilities, building renewal, or other capital construction projects. The law appropriates \$27,000,000 to the universities in FY 2019

and increases the appropriation each year thereafter by the lesser of 2.0% or inflation. The FY 2019 appropriations are allocated to each university as follows:

- ASU: \$11,927,400
- NAU: \$4,520,900
- UA: \$10,551,700

The allocations of the \$27,000,000 are based on each university's share of the systemwide transaction privilege tax (TPT) collections in FY 2016. (Please see *Capital Outlay - ABOR Building System* section for additional information.)

Intellectual Property & Technology Transfer Royalties

In conjunction with annual General Fund appropriations that fund university research facilities constructed under A.R.S. § 15-1670 (please see *2003 Research Infrastructure Refinancing* section above for more information), Laws 2003, Chapter 267 required the universities to deposit into the General Fund 20% of income from licensure and royalty payments and 25% of income from the sale or transfer of intellectual property during the preceding fiscal year (not to exceed the state's annual General Fund appropriation for the research facilities).

While not defined in statute, the universities have interpreted "income" as gross royalties net of expenditures on legal fees (required to secure patents, etc.), the costs of managing the technology transfer process, and distributions of revenues to the inventors and their laboratories.

In terms of FY 2016 gross royalty revenues, ASU reported \$10,813,800 of licensing and royalty revenues, NAU reported \$5,290 of licensing and royalty revenue, and UA reported \$2,015,800 of licensure, royalty, and assignment revenues.

In terms of net income, NAU and UA both reported a loss in FY 2016. ASU reported a net income of \$603,000 in FY 2016. ASU did not deposit any portion of these monies into the General Fund, citing a \$40.3 million cumulative net loss from prior years. Statute does not provide, however, for offsetting annual income with prior year losses.

Laws 2017, Chapter 328 amends A.R.S. § 15-1670 to clarify the university technology transfer sale and royalty income sharing policy by requiring that for all new agreements entered into after May 1, 2017, the universities shall annually deposit:

- For the first 3 years of each licensure or royalty contract, 20% of the net income generated in the prior fiscal year.
- After the third year of each contract, 20% of the gross annual revenues generated by the contract.
- For any sale or transfer of intellectual property, 25% of the gross revenues generated by the transaction.

The law clarifies that the universities may not deduct past years' cumulative losses from the amount of revenue or income subject to deposit into the General Fund.

The law also makes permanent the technology transfer income sharing provisions, which would otherwise have expired in FY 2031.

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 2018 is \$6.14 billion, including \$704.8 million from the General Fund and \$2.42 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2018 tuition rate changes and does not include the categories of tuition and fees excluded from the universities annual budget requests. *(Please see the Tuition Revenues section for more information.)* Table 4 summarizes the FY 2018 expenditure authority amounts for the Arizona University System.

Tuition Distribution

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. The latter includes financial aid, facilities (plant fund), debt service, and some of their operating budget. Total tuition collections for the Arizona University System equal an estimated \$2.35 billion in FY 2017 and \$2.42 billion in FY 2018 *(please see Table 5)*. The FY 2018 amount is not adjusted for any FY 2018 tuition rate changes.

Tuition Rates

ABOR approved FY 2018 tuition rates on April 7, 2017.

- Since FY 2009, NAU has maintained a guaranteed tuition model for incoming freshmen. NAU increased

tuition and mandatory fees by 2.7% for new undergraduate resident students.

- UA began a similar program in FY 2015. UA increased tuition and fees by 3.9% for new resident undergraduate students.
- ASU increased tuition and fees for all resident undergraduates by 1.4%. ASU's total tuition and fees include \$270 for the partial continuation of a temporary surcharge first levied in FY 2016.

Table 6 only includes major tuition categories. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The Arizona University System distributed \$2.4 billion in financial aid in FY 2016. Of the \$2.4 billion total financial aid distributions in FY 2016, the federal government financed \$1.0 billion and university institutional sources provided \$808 million. The latter includes \$622 million of foregone tuition collections in the form of waivers and awards. *(Please see Table 7 for details.)*

Enrollment

Between fall 2015 and fall 2016, university enrollment increased from 157,877 FTE to 164,838, or 4.4%, as displayed in Table 8. Spring enrollment is traditionally lower than the fall. Spring 2017 enrollment is 161,199, or 4.4% higher than spring 2016.

Table 4

FY 2018 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total ^{3/}
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	
ABOR	\$ 6,909,300	\$ 0	\$ 0	\$ 56,700	\$ 6,039,200	\$ 13,005,200
ASU-Tempe/DPC	267,987,600	598,306,200	0	339,838,100	1,301,471,700	2,507,603,600
ASU-East	22,757,200	42,436,200	2,000,000	10,151,400	57,211,500	134,556,300
ASU-West	29,514,200	44,345,500	1,600,000	13,685,700	123,179,800	212,325,200
NAU	108,612,800	147,362,100	0	89,980,200	301,915,000	647,870,100
UA-Main	199,600,900	408,320,500	0	227,529,600	1,118,100,000	1,953,551,000
UA-Health Sciences	<u>69,437,700</u>	<u>47,899,600</u>	<u>0</u>	<u>122,122,900</u>	<u>428,965,100</u>	<u>668,425,300</u>
Total	\$704,819,700	\$1,288,670,100	\$3,600,000	\$803,364,600	\$3,336,882,300	\$6,137,336,700

- ^{1/} Appropriated share of tuition and mandatory registration fees comprise \$1,275,076,700 of the total Collections Fund spending authority. The remaining authority is derived from miscellaneous fees. This amount excludes FY 2018 tuition rate changes.
- ^{2/} Expenditures of non-appropriated funds include transfers of funds to non-operating accounts for capital and debt service expenses, which were excluded in prior years' analyses. The total expenditures of gross non-appropriated tuition are estimated to be \$1,131,520,000 in FY 2018 and are reflected in Table 5. This amount excludes FY 2018 tuition rate changes. This amount also excludes tuition and fee revenue derived from course fees, most summer session revenues, non-degree, extended education, personalized learning, mandatory fees and other miscellaneous student fees. These amounts equaled approximately \$417 million in FY 2017. The excluded tuition and fee monies are included among the other non-appropriated funds total.
- ^{3/} Total universitywide funding includes gross tuition revenues. The net tuition amount received by the universities after accounting for tuition waivers and other scholarships they provided was \$622 million less as of FY 2016.

Table 5

Gross Tuition Revenue Allocation

	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate
Appropriated			
Operating Budget	\$1,157,209,800	\$1,275,076,700 ^{1/}	\$1,275,076,700 ^{2/}
Non-Appropriated ^{3/}			
Operating Budget	\$ 286,862,100	\$ 335,430,200	\$ 351,333,100
Financial Aid	544,502,700	621,336,700	665,091,400
Plant Fund	25,776,500	25,776,500	26,276,500
Debt Service	<u>97,819,100</u>	<u>88,319,000</u>	<u>88,819,000</u>
Subtotal	\$ 954,960,400	\$1,070,862,400	\$1,131,520,000
Total ^{4/ 5/}	\$2,112,170,200	\$2,345,939,100	\$2,406,596,700

- ^{1/} This amount reflects appropriated gross tuition collections and fees as allocated by ABOR and favorably reviewed by the JLBC at its December 2016 meeting, excluding miscellaneous revenues such as federal agriculture payments and land grant monies that the universities report as part of collections.
- ^{2/} The appropriated tuition and fees amount is the FY 2017 amount carried forward and does not reflect FY 2018 tuition adjustments determined by ABOR in the spring of 2017.
- ^{3/} The source for these non-appropriated amounts are the universities' FY 2018 budget requests from October 2016. These amounts reflect the expenditures of tuition monies and therefore differ by approximately \$15 million in FY 2018 from the gross revenues collected due to the universities maintaining a reserve of funds.
- ^{4/} Excludes several categories of student fee revenues, including course fees, most summer session revenues, and other miscellaneous and mandatory fees that the universities omit from reported tuition totals in their annual budget requests and tuition revenue report. These excluded revenues equal approximately 15% of tuition and fee revenues. The excluded revenues equaled approximately \$417 million in FY 2017.
- ^{5/} The reported gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities would constitute net tuition. The FY 2016 ABOR Financial Aid Report states that the universities provided \$622.3 million in tuition waivers and awards in FY 2016.

Table 6

**Arizona University System
FY 2018 Undergraduate and Graduate Tuition ^{1/}**

	<u>Resident Undergraduate</u>		<u>Resident Graduate</u>		<u>Non-Resident Undergraduate</u>		<u>Non-Resident Graduate</u>	
	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>
ASU	\$10,792 ^{2/}	1.4%	\$11,918	1.4%	\$27,372 ^{3/}	3.4%	\$29,854	3.4%
NAU	\$11,059	2.7%	\$10,261	2.7%	\$24,841	2.9%	\$22,609	2.9%
UA	\$12,228	3.9%	\$12,748	2.9%	\$35,658	2.0%	\$32,698	1.0%

^{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/} Includes temporary surcharge first levied in FY 2016 at \$320, which was reduced to \$270 in FY 2017 and is continued at that level in FY 2018. Overall tuition and fee increase of 1.4% for ASU undergraduate resident students.

^{3/} ABOR approved a rate of \$29,512 for international undergraduate students at ASU.

Table 7

**FY 2016 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}**

	<u>Federal</u>	<u>State ^{2/}</u>	<u>Institutional ^{3/}</u>	<u>Private/Other ^{4/}</u>	<u>Total</u>
Grants	\$260,432.9	\$765.1	\$622,274.3	\$222,600.4	\$1,106,072.7
Loans	776,726.5	186.6	0.0	316,629.5	1,093,542.6
Employment	<u>9,126.6</u>	<u>0.0</u>	<u>185,816.9</u>	<u>0.0</u>	<u>194,943.5</u>
Total	\$1,046,286.0	\$951.7	\$808,091.2	\$539,229.9	\$2,394,558.8 ^{5/}

^{1/} Information from ABOR FY 2016 Financial Aid Report.

^{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. Of the \$622.3 million in institutional grant aid, \$544.5 million represents cash-based awards funded by tuition revenues received from other students. (Source: university FY 2018 budget requests, schedule 1D-4). The remaining institutional grant aid represents foregone revenues associated with tuition waivers for students, faculty, or other recipients.

^{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 2015</u>	<u>Spring 2016</u>	<u>Fall 2016</u>	<u>Spring 2017</u>	<u>Fall 2015 To Fall 2016</u>	<u>Spring 2016 To Spring 2017</u>	<u>FY 2015 – 2016 Residents ^{2/}</u>
ASU-Tempe / DPC	73,956	72,556	78,333	76,958	5.9%	6.1%	39,891
ASU-East	6,565	6,490	7,052	6,782	7.4%	4.5%	4,401
ASU-West	7,992	7,873	8,521	8,498	6.6%	7.9%	3,723
NAU	27,212	26,400	28,568	27,479	5.0%	4.1%	17,238
UA-Main	38,593	37,515	38,690	37,829	0.3%	0.8%	22,130
UA-Health Sciences	<u>3,559</u>	<u>3,528</u>	<u>3,674</u>	<u>3,654</u>	<u>3.2%</u>	<u>3.6%</u>	<u>2,752</u>
Total	157,877	154,361	164,838	161,199	4.4%	4.4%	90,135

^{1/} Adjusted FTE counts include both graduate and undergraduate students and exclude excess credit hours taken by students. Spring enrollment figures are the average of the full academic year (spring and fall semesters).

^{2/} FY 2015-2016 resident FTE counts from FY 2016 Auditor General Full-Time Equivalent Student Enrollment Report.

Arizona State University - Tempe/DPC

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6,552.6	6,862.9	6,862.9 ^{1/}
Personal Services	404,276,200	418,082,200	418,082,200
Employee Related Expenditures	127,474,000	133,667,900	139,950,300
Professional and Outside Services	33,344,600	31,694,000	31,694,000
Travel - In State	192,900	36,300	36,300
Travel - Out of State	3,010,700	2,791,600	2,791,600
Other Operating Expenditures	60,543,300	66,292,600	69,373,900
Equipment	22,980,200	25,552,700	25,552,700
OPERATING SUBTOTAL	651,821,900	678,117,300	687,481,000
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	10,509,100	10,273,300	12,564,000 ^{2/}
Arizona Financial Aid Trust	0	0	5,985,800 ^{3/}
Biomedical Informatics	2,703,800	3,509,900	3,545,800
Downtown Phoenix Campus	111,441,900	144,877,600	146,046,900
Elimination of Payment Deferral	74,760,400 ^{4/}	0	0
One-Time Funding	0	7,000,000	6,639,500 ^{5/6/}
School of Civic and Economic Thought and Leadership	0	3,000,000	4,030,800 ^{5/6/7/}
AGENCY TOTAL	851,237,100	846,778,100	866,293,800 ^{8/9/10/}
FUND SOURCES			
General Fund	315,844,800 ^{4/}	253,651,900 ^{11/}	267,987,600 ^{12/13/14/}
<u>Other Appropriated Funds</u>			
University Collections Fund	535,392,300	593,126,200	598,306,200 ^{15/}
SUBTOTAL - Other Appropriated Funds	535,392,300	593,126,200	598,306,200
SUBTOTAL - Appropriated Funds	851,237,100	846,778,100	866,293,800
Other Non-Appropriated Funds	1,120,464,900	1,228,083,900	1,301,471,700
Federal Funds	350,374,000	339,838,100	339,838,100
TOTAL - ALL SOURCES	2,322,076,000	2,414,700,100	2,507,603,600

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 326 Baccalaureate, Master's, Doctoral and first professional degree programs, and 113 undergraduate and graduate certificate programs to 76,844 full- and part-time students at its Tempe Campus. The Downtown Phoenix Campus (DPC), budgeted as a unit of the Tempe Campus, offers 77 degree programs and 51 certificate programs to 28,746 full- and part-time students.

^{1/} Includes 146.4 GF and 1,032.5 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} A.R.S. § 15-1670 appropriates \$13,481,000 to ASU from the General Fund in FY 2018 to finance lease-purchase payments for research infrastructure projects. Of this amount, \$12,564,000 is allocated to ASU - Tempe/DPC.

^{3/} Prior to the FY 2018 budget, ASU's share of the General Fund monies appropriated for the Arizona Financial Aid Trust were included in the ABOR budget.

^{4/} This appropriation includes a one-time state General Fund appropriation of \$74,760,400 (FY 2017 General Appropriation Act footnote). These funds were appropriated to pay off ASU - Tempe/DPC's share of the university rollover.

^{5/} A. The sum of \$15,000,000 is appropriated from the state General Fund in FY 2018 to Arizona State University, Northern Arizona University and the University of Arizona for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,639,500, 2) Northern Arizona University \$3,202,800, 3) University of Arizona \$4,157,700. B. \$1,000,000 of the amount appropriated to Arizona State University pursuant to this section shall be used for operating expenditures of the School of Civic and Economic Thought and Leadership. This amount must supplement and not supplant any existing state funding or private or external donations to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. D. On or before August 1, 2017, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. E. Before any expenditure of the monies appropriated in subsection A of this section for capital improvements, each university shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)

Operating Budget

The budget includes \$687,481,000 and 5,684 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$222,147,400
University Collections Fund	465,333,600

These amounts fund the following adjustments:

Performance Funding Reallocation

The budget includes an increase of \$2,348,800 from the General Fund in FY 2018 for the reallocation of performance funding monies from the Arizona Board of Regents (ABOR) to ASU - Tempe/DPC. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Performance Funding narrative in the ABOR section for more information.)*

Statewide Adjustments

The budget includes an increase of \$7,014,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	2,890,100
University Collections Fund	4,124,800

(Please see the Agency Detail and Allocations section.)

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.)*

2003 Research Infrastructure Lease-Purchase Payment

The budget includes \$12,564,000 from the General Fund in FY 2018 for the 2003 Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes an increase of \$2,290,700 from the General Fund in FY 2018 to adjust from prior year savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267 (A.R.S. § 15-1670) appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Of this amount, \$14,472,000 was appropriated to ASU, including \$13,555,000 allocated to ASU - Tempe/DPC and \$917,000 to ASU East.

- 6/ The \$1,000,000 of one-time funding restricted to operating expenditures for the School of Civic and Economic Thought and Leadership are displayed as part of the school's line item and are excluded from the amount displayed for the One-Time Funding line item.
- 7/ The appropriated amount for the School of Civic and Economic Thought and Leadership line item shall be used to operate a single stand-alone academic entity within Arizona State University. The appropriated amount may not supplant any existing state funding or private or external donations to the existing centers or to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. The school shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Education Committee and the Director of the Joint Legislative Budget Committee on or before October 2, 2017. The report shall include at least the following for the school: 1) The total amount of funding received from all sources, 2) A description of faculty positions and courses offered, 3) The total undergraduate and graduate student enrollment, 4) Significant community events, initiatives or publications. The Chairpersons of the Senate Education Committee and the House of Representatives Education Committee may request the Director of the school to appear before the committees to report on the school's annual achievements. (General Appropriation Act footnote)
- 8/ Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 9/ The appropriated monies may not be used by the Arizona State University College of Law Legal Clinic for any lawsuits involving inmates of the State Department of Corrections in which the state is the adverse party. (General Appropriation Act footnote)
- 10/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 11/ Includes \$110,700 adjustment for the reallocation of General Fund appropriations for statewide adjustments from ASU - East and ASU - West made subsequently to the FY 2017 Appropriations Report. The General Fund appropriations for those 2 campuses were reduced by corresponding amounts.
- 12/ The state General Fund appropriation may not be used for alumni association funding or contracts with individuals or entities for lobbying services. (General Appropriation Act footnote)
- 13/ The FY 2018 General Fund budget as adjusted for statewide adjustments is \$267,987,600. This amount includes \$244,713,200 in ASU - Tempe/DPC's individual section of the FY 2018 General Appropriation Act, \$3,070,900 for statewide adjustments, \$12,564,000 in A.R.S. § 15-1670 lease-purchase appropriations, and a one-time \$7,639,500 appropriation in section 131 of the FY 2018 General Appropriation Act for capital improvements or other operating expenditures.
- 14/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 15/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2017 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. (General Appropriation Act footnote)

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to ASU's current debt service schedule.

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2018 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.

(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)

Arizona Financial Aid Trust

The budget includes \$5,985,800 from the General Fund in FY 2018 for the Arizona Financial Aid Trust (AFAT). This amount funds the following adjustments:

AFAT Reallocation

The budget includes an increase of \$5,985,800 from the General Fund in FY 2018 for the reallocation of ASU's share of AFAT monies from ABOR to the university. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Student Financial Assistance narrative in the ABOR section for more information.)*

Biomedical Informatics

The budget includes \$3,545,800 and 24.9 FTE Positions in FY 2018 for the Biomedical Informatics Department. These amounts consist of:

General Fund	2,155,800
University Collections Fund	1,390,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$35,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	22,700
University Collections Fund	13,200

This multidisciplinary department incorporates computer science, biology, and engineering to organize and analyze medical data. In 2014, Biomedical Informatics moved from the DPC to Mayo Clinic's hospital in Phoenix.

Downtown Phoenix Campus

The budget includes \$146,046,900 and 1,135 FTE Positions in FY 2018 for programs headquartered at the Downtown Phoenix Campus (DPC). These amounts consist of:

General Fund	14,464,300
University Collections Fund	131,582,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,169,300 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	127,300
University Collections Fund	1,042,000

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 17,107 in FY 2017.

One-Time Funding

The budget includes \$6,639,500 in FY 2018 from the General Fund for the One-Time Funding line item. This amount funds the following adjustments:

Continued One-Time Funding

The budget includes a decrease of \$(360,500) from the General Fund in FY 2018 for the adjustment of one-time funding for capital improvements or operating expenditures. The FY 2017 budget appropriated \$7,000,000 from the General Fund to ASU in FY 2017 that was designated as one-time funding. The FY 2018 budget includes \$7,639,500 from the General Fund that is designated as one-time funding. Of this amount, however, \$1,000,000 is restricted for operating expenditures of the School of Civic and Economic Thought and Leadership and therefore is displayed in the funding for that line item. *(Please see the School of Civic and Economic Thought and Leadership narrative below for more information.)*

School of Civic and Economic Thought and Leadership

The budget includes \$4,030,800 and 19 FTE Positions from the General Fund in FY 2018 for the School of Civic and Economic Thought and Leadership line item. These amounts fund the following adjustments:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2018 for one-time funding for operating expenditures. *(Please see the One-Time Funding line item narrative above for more information.)*

Statewide Adjustments

The budget includes an increase of \$30,800 from the General Fund in FY 2018 for statewide adjustments.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) provided funding for the creation of the School of Civic and Economic Thought and Leadership at ASU. The school will function as a standalone academic entity within the College of Liberal Arts and Sciences.

The school is expected to begin matriculating students in the 2017-2018 academic year and will ultimately offer graduate and undergraduate degree programs with coursework focused in 4 areas: history of moral and political thought, the history of economic thought, American political and economic thought, and the possibilities and problems of leadership. *(Please see the FY 2017 Appropriation Report for more information.)*

Other Issues

This section includes information on the following topics:

- Summary
- Long-Term Budget Impacts
- Additional Legislation - ASU Budget Consolidation
- University Collections and FTE Positions Adjustments

Summary

ASU - Tempe/DPC's FY 2018 General Fund budget is \$267,987,600. Of this amount:

- \$244,713,200 is included in ASU - Tempe/DPC's individual section of the FY 2018 General Appropriation Act.
- \$3,070,900 is part of statewide adjustments.
- \$12,564,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$7,639,500 is a one-time appropriation in section 131 of the FY 2018 General Appropriation Act for capital improvements or operating expenditures.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ASU - Tempe/DPC's General Fund costs are projected to

increase by \$4,285,600 in FY 2019 above FY 2018, and \$216,100 in FY 2020 above FY 2019.

These estimates include ASU - Tempe/DPC's annual appropriations for the University Capital Investment Program, as established in A.R.S. § 15-1671 by Laws 2017, Chapter 328. The appropriations will begin in FY 2019 at \$11,927,400 and will grow by 2% or inflation each year thereafter through FY 2043. *(Please see the 2017 University Capital Investment Program narrative in the Capital Outlay - ABOR Building System section for more information.)*

The estimates for FY 2019 are decreased by \$(7,639,500) for the removal of one-time funding. The estimates also include a \$(2,300) decrease in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 compared to FY 2018 and a \$(22,400) decrease in FY 2020 below FY 2019. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

Additional Legislation

ASU Budget Consolidation

Laws 2017, Chapter 199 amends A.R.S. §§ 15-1601 and 35-101 to eliminate the requirement that ASU - West and ASU - East be identified as separate budget units in the General Appropriation Act. This provision will take effect with the FY 2019 General Appropriation Act.

While ASU - West, ASU - East, and ASU - Tempe/DPC will be consolidated into a single universitywide budget unit, the law requires that ASU provide an annual report on the revenues, enrollment, and capital expenditures of each campus.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$551,220,900 from the University Collections Fund to ASU - Tempe/DPC in FY 2017. 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 2017 to the Joint Legislative Budget Committee in June 2016, and ASU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the estimated FY 2017 amount has been adjusted upward by \$41,905,300 to \$593,126,200.

The FY 2018 University Collections Fund amount is further increased by \$5,180,000 for statewide adjustments to \$598,306,200.

The FY 2017 FTE Position count has also been adjusted. Laws 2016, Chapter 117 originally appropriated 6,552.6 FTE Positions in FY 2017 for the ASU - Tempe/DPC Campus. The General Fund accounted for 1,943.1 FTE Positions and the University Collections Fund accounted for the remaining 4,609.5 FTE Positions. The estimated number of FY 2017 FTE Positions has been adjusted by 310.3 to 6,862.9. The General Fund accounts for 1,993.8 FTE Positions and the University Collections Fund accounts for the remaining 4,869.1 FTE Positions.

Arizona State University - East Campus

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	416.2	435.9	435.9
Personal Services	26,394,000	26,920,000	26,920,000
Employee Related Expenditures	8,419,700	8,627,700	8,829,400
Professional and Outside Services	3,453,200	4,261,200	4,261,200
Travel - In State	13,200	33,700	33,700
Travel - Out of State	127,100	26,000	26,000
Other Operating Expenditures	18,180,600	23,486,800	23,652,100
Equipment	872,400	554,000	554,000
OPERATING SUBTOTAL	57,460,200	63,909,400	64,276,400
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	917,000	917,000	917,000 ^{1/}
Elimination of Payment Deferral	5,750,200 ^{2/}	0	0
TRIF Lease-Purchase Payment	2,000,000	2,000,000	2,000,000
AGENCY TOTAL	66,127,400	66,826,400	67,193,400 ^{3/4/}
FUND SOURCES			
General Fund	28,095,600 ^{2/}	22,523,100 ^{5/}	22,757,200 ^{5/2/8/}
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	2,000,000	2,000,000	2,000,000
University Collections Fund	36,031,800	42,303,300	42,436,200 ^{9/}
SUBTOTAL - Other Appropriated Funds	38,031,800	44,303,300	44,436,200
SUBTOTAL - Appropriated Funds	66,127,400	66,826,400	67,193,400
Other Non-Appropriated Funds	57,724,400	53,759,100	57,211,500
Federal Funds	10,319,400	10,151,400	10,151,400
TOTAL - ALL SOURCES	134,171,200	130,736,900	134,556,300

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 48 professional and technical Baccalaureate, Master's, and Doctoral degree programs and 14 undergraduate certificate programs to 16,227 full- and part-time students. ASU - East is located at the 600-acre site of the former Williams Air Force Base in southeast Mesa.

- 1/ A.R.S. § 15-1670 appropriates \$917,000 from the General Fund in FY 2018 to finance lease-purchase payments for research infrastructure projects.
- 2/ This appropriation includes a one-time state General Fund appropriation of \$5,750,200 (FY 2017 General Appropriation Act footnote). These funds were appropriated to pay off ASU - East's share of the university rollover.
- 3/ Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 5/ Includes \$(52,200) adjustment for the reallocation of General Fund appropriations for statewide adjustments from ASU - East to ASU - Tempe/DPC made subsequently to the *FY 2017 Appropriations Report*. The General Fund appropriations for ASU - Tempe/DPC include a corresponding increase.
- 6/ The state General Fund appropriation may not be used for alumni association funding or contracts with individuals or entities for lobbying services. (General Appropriation Act footnote)
- 7/ The FY 2018 General Fund budget as adjusted for statewide adjustments is \$22,757,200. This amount includes \$21,771,400 in ASU - East's individual section of the FY 2018 General Appropriation Act, \$68,800 for statewide adjustments, and the \$917,000 in A.R.S. § 15-1670 lease-purchase appropriations.
- 8/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 9/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2017 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. (General Appropriation Act footnote)

Operating Budget

The budget includes \$64,276,400 and 435.9 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$21,840,200
University Collections Fund	42,436,200

These amounts fund the following adjustments:

Performance Funding Reallocation

The budget includes an increase of \$165,300 from the General Fund in FY 2018 for the reallocation of performance funding monies from the Arizona Board of Regents (ABOR) to ASU - East. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Performance Funding narrative in the ABOR section for more information.)*

Statewide Adjustments

The budget includes an increase of \$201,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	68,800
University Collections Fund	132,900

(Please see the Agency Detail and Allocations section.)

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.)*

2003 Research Infrastructure Lease-Purchase Payment

The budget includes \$917,000 from the General Fund in FY 2018 for the 2003 Research Infrastructure Lease-Purchase Payment line item. This amount is unchanged from FY 2017.

Laws 2003, Chapter 267 (A.R.S. § 15-1670) appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Therefore, this funding does not appear in the FY 2018 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.

(Please see the 2003 Research Infrastructure narrative in the ABOR section for more information.)

TRIF Lease-Purchase Payment

The budget includes \$2,000,000 from the Technology and Research Initiative Fund (TRIF) in FY 2018 for lease-purchase payment requirements. This amount is unchanged from FY 2017.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,400,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$27,500,000 in infrastructure development at ASU - East. Beginning in FY 2003, the lease-purchase payment increased to \$2,000,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

This section includes information on the following topics:

- Summary
- Additional Legislation - ASU Budget Consolidation
- University Collections and FTE Positions Adjustments

Summary

ASU - East's FY 2018 General Fund budget is \$22,757,200. Of this amount:

- \$21,771,400 is included in ASU - East's individual section of the FY 2018 General Appropriation Act.
- \$68,800 is part of statewide adjustments.
- \$917,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.

Additional Legislation

ASU Budget Consolidation

Laws 2017, Chapter 199 amends A.R.S. §§ 15-1601 and 35-101 to eliminate the requirement that ASU - West and ASU - East be identified as separate budget units in the General Appropriation Act. This provision will take effect with the FY 2019 General Appropriation Act.

While ASU - West, ASU - East, and ASU - Tempe/DPC will be consolidated into a single universitywide budget unit, the law requires that ASU provide an annual report on the

revenues, enrollment, and capital expenditures of each campus.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$35,722,900 from the University Collections Fund to ASU - East in FY 2017. 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 2017 to the Joint Legislative Budget Committee in June 2016, and ASU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the estimated FY 2017 amount has been adjusted upward by \$6,580,400 to \$42,303,300.

The FY 2018 University Collections Fund amount is further increased by \$132,900 for statewide adjustments to \$42,436,200.

The FY 2017 FTE Position count has also been adjusted. Laws 2016, Chapter 117 originally appropriated 416.2 FTE Positions in FY 2017 for the ASU - East Campus. The General Fund accounted for 155.2 FTE Positions and the University Collections Fund accounted for the remaining 261 FTE Positions. The estimated number of FY 2017 FTE Positions has been adjusted by 19.7 to 435.9. The General Fund accounts for 147.4 FTE Positions and the University Collections Fund accounts for the remaining 288.5 FTE Positions.

Arizona State University - West Campus

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	521.1	513.0	513.0
Personal Services	33,658,800	35,317,700	35,317,700
Employee Related Expenditures	11,093,100	11,138,400	11,394,100
Professional and Outside Services	3,477,300	4,262,400	4,262,400
Travel - In State	24,000	46,600	46,600
Travel - Out of State	46,900	56,600	56,600
Other Operating Expenditures	21,834,200	22,530,900	22,721,800
Equipment	357,000	60,500	60,500
OPERATING SUBTOTAL	70,491,300	73,413,100	73,859,700
SPECIAL LINE ITEMS			
Elimination of Payment Deferral	10,064,800 ^{1/}	0	0
TRIF Lease-Purchase Payment	1,600,000	1,600,000	1,600,000
AGENCY TOTAL	82,156,100	75,013,100	75,459,700 ^{2/3/}
FUND SOURCES			
General Fund	39,024,400 ^{1/}	29,222,600 ^{4/}	29,514,200 ^{5/6/7/}
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	1,600,000	1,600,000	1,600,000
University Collections Fund	41,531,700	44,190,500	44,345,500 ^{8/}
SUBTOTAL - Other Appropriated Funds	43,131,700	45,790,500	45,945,500
SUBTOTAL - Appropriated Funds	82,156,100	75,013,100	75,459,700
Other Non-Appropriated Funds	86,922,200	121,998,500	123,179,800
Federal Funds	13,946,200	13,685,700	13,685,700
TOTAL - ALL SOURCES	183,024,500	210,697,300	212,325,200

AGENCY DESCRIPTION — Established as a separate budget unit in 1984, Arizona State University - West Campus (ASU - West) currently offers 64 Baccalaureate, selective Master's, and Doctoral degree programs in the professional and liberal arts and 25 undergraduate certificate programs to 19,382 full- and part-time students. ASU - West is located at a 277-acre site in northwest Phoenix.

- 1/ This appropriation includes a one-time state General Fund appropriation of \$10,064,800 (FY 2017 General Appropriation Act footnote). These funds were appropriated to pay off ASU - West's share of the university rollover.
- 2/ Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 3/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 4/ Includes \$(58,500) adjustment for the reallocation of General Fund appropriations for statewide adjustments from ASU - West to ASU - Tempe/DPC made subsequently to the FY 2017 Appropriations Report. The General Fund appropriations for ASU - Tempe/DPC include a corresponding increase.
- 5/ The state General Fund appropriation may not be used for alumni association funding or contracts with individuals or entities for lobbying services. (General Appropriation Act footnote)
- 6/ The FY 2018 General Fund budget as adjusted for statewide adjustments is \$29,514,200. This amount includes \$29,413,500 in ASU - West's individual section of the FY 2018 General Appropriation Act and \$100,700 for statewide adjustments.
- 7/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 8/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2017 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. (General Appropriation Act footnote)

Operating Budget

The budget includes \$73,859,700 and 513 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$29,514,200
University Collections Fund	44,345,500

These amounts fund the following adjustments:

Performance Funding Reallocation

The budget includes an increase of \$190,900 from the General Fund in FY 2018 for the reallocation of performance funding monies from the Arizona Board of Regents (ABOR) to ASU - West. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Performance Funding narrative in the ABOR section for more information.)*

Statewide Adjustments

The budget includes an increase of \$255,700 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	100,700
University Collections Fund	155,000

(Please see the Agency Detail and Allocations section.)

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 budget includes \$1,600,000 from the Technology and Research Initiative Fund (TRIF) in FY 2018 for lease-purchase payment requirements. This amount is unchanged from FY 2017.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,100,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$21,600,000 in infrastructure development at ASU - West. Beginning in FY 2003, the lease-purchase payment increased to \$1,600,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

Additional Legislation

ASU Budget Consolidation

Laws 2017, Chapter 199 amends A.R.S. §§ 15-1601 and 35-101 to eliminate the requirement that ASU - West and ASU - East be identified as separate budget units in the General Appropriation Act. This provision will take effect with the FY 2019 General Appropriation Act.

While ASU - West, ASU - East, and ASU - Tempe/DPC will be consolidated into a single universitywide budget unit, the law requires that ASU provide an annual report on the revenues, enrollment, and capital expenditures of each campus.

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$44,241,400 from the University Collections Fund to ASU - West in FY 2017. 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 2017 to the Joint Legislative Budget Committee in June 2016, and ASU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the estimated FY 2017 amount has been adjusted downward by \$(50,900) to \$44,190,500.

The FY 2018 University Collections Fund amount is further increased by \$155,000 for statewide adjustments to \$44,345,500.

The 2017 FTE Position count has also been adjusted. Laws 2016, Chapter 117 originally appropriated 521.1 FTE Positions in FY 2017 for the ASU - West Campus. The General Fund accounted for 205.3 FTE Positions and the University Collections Fund accounted for the remaining 315.8 FTE Positions. The estimated number of FY 2017 FTE Positions has been adjusted by (8.1) to 513. The General Fund accounts for 204.2 FTE Positions and the University Collections Fund accounts for the remaining 308.8 FTE Positions.

Northern Arizona University

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,249.9	2,260.7	2,260.7 ^{1/}
Personal Services	153,883,700	157,929,100	157,929,100
Employee Related Expenditures	47,931,900	47,933,700	48,067,500
Professional and Outside Services	12,533,800	8,016,600	8,016,600
Travel - In State	328,500	438,800	438,800
Travel - Out of State	561,400	0	0
Other Operating Expenditures	16,768,000	21,165,400	22,315,800
Equipment	420,100	422,000	422,000
OPERATING SUBTOTAL	232,427,400	235,905,600	237,189,800
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	5,493,200	4,246,800	5,896,500 ^{2/}
Arizona Financial Aid Trust	0	0	1,326,000 ^{3/}
Biomedical Research	3,000,000	3,000,000	3,000,000 ^{4/}
Elimination of Payment Deferral	30,494,800 ^{5/}	0	0
NAU - Yuma	2,924,400	3,067,300	3,069,200
One-Time Funding	0	4,000,000	3,202,800 ^{6/}
Teacher Training	2,399,400	2,290,600	2,290,600 ^{7/}
AGENCY TOTAL	276,739,200	252,510,300	255,974,900 ^{8/9/}
FUND SOURCES			
General Fund	131,452,600 ^{5/}	105,227,000	108,612,800 ^{10/-12/}
<u>Other Appropriated Funds</u>			
University Collections Fund	145,286,600	147,283,300	147,362,100 ^{13/}
SUBTOTAL - Other Appropriated Funds	145,286,600	147,283,300	147,362,100
SUBTOTAL - Appropriated Funds	276,739,200	252,510,300	255,974,900
Other Non-Appropriated Funds	265,653,200	296,832,200	301,915,000
Federal Funds	88,206,900	89,089,200	89,980,200
TOTAL - ALL SOURCES	630,599,300	638,431,700	647,870,100

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 155 degree programs and 78 certificate programs to 30,368 students in 10 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 24 instructional sites, including a Yuma Branch Campus that operates in conjunction with Arizona Western College and NAU Yavapai, a partnership with Yavapai Community College.

1/ Includes 36.9 GF FTE Positions funded from Special Line Items in FY 2018.

2/ A.R.S. § 15-1670 appropriates \$5,896,500 from the General Fund in FY 2018 to finance lease-purchase payments for research infrastructure projects.

3/ Prior to the FY 2018 budget, NAU's share of the General Fund monies appropriated for the Arizona Financial Aid Trust were included in the ABOR budget.

4/ Laws 2014, Chapter 18 appropriated \$3,000,000 annually from the state General Fund in FY 2015, FY 2016, FY 2017, FY 2018 and FY 2019 to NAU for distribution to a nonprofit medical research foundation in this state that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers.

5/ This appropriation includes a one-time state General Fund appropriation of \$30,494,800 (FY 2017 General Appropriation Act footnote). These funds were appropriated to pay off NAU's share of the university rollover.

Operating Budget

The budget includes \$237,189,800 and 2,223.8 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
General Fund	\$89,827,700
University Collections Fund	147,362,100

These amounts fund the following adjustments:

Performance Funding Reallocation

The budget includes an increase of \$1,090,000 from the General Fund in FY 2018 for the reallocation of performance funding monies from the Arizona Board of Regents (ABOR) to NAU. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Performance Funding narrative in the ABOR section for more information.)*

Statewide Adjustments

The budget includes an increase of \$194,200 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	115,400
University Collections Fund	78,800

(Please see the Agency Detail and Allocations section.)

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.)*

- 6/ A. The sum of \$15,000,000 is appropriated from the state General Fund in FY 2018 to Arizona State University, Northern Arizona University and the University of Arizona for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,639,500, 2) Northern Arizona University \$3,202,800, 3) University of Arizona \$4,157,700. D. On or before August 1, 2017, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. E. Before any expenditure of the monies appropriated in subsection A of this section for capital improvements, each university shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)
- 7/ The appropriated amount for the Teacher Training line item shall be distributed to the Arizona K-12 Center for Program Implementation and Mentor Training for the Arizona Mentor Teacher program prescribed by the State Board of Education. (General Appropriation Act footnote)
- 8/ Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 10/ The state General Fund appropriation may not be used for alumni association funding or contracts with individuals or entities for lobbying services. (General Appropriation Act footnote)
- 11/ The FY 2018 General Fund Budget as adjusted for statewide adjustments is \$108,612,800. This amount includes \$96,396,200 in NAU's individual section of the FY 2018 General Appropriation Act, \$117,300 for statewide adjustments, the \$5,896,500 in A.R.S. § 15-1670 lease-purchase appropriations, the \$3,000,000 Biomedical Research appropriation in the FY 2015 General Appropriation Act, and a one-time \$3,202,800 appropriation in section 131 of the FY 2018 General Appropriation Act for capital improvements or other operating expenditures.
- 12/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 13/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2017 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. (General Appropriation Act footnote)

2003 Research Infrastructure Lease-Purchase Payment

The budget includes \$5,896,500 from the General Fund in FY 2018 for the 2003 Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustment:

Refinance Adjustment

The budget includes an increase of \$1,649,700 from the General Fund in FY 2018 to adjust from prior year savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267 (A.R.S. § 15-1670) appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to NAU's current debt service schedule.

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2018 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.

(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)

Arizona Financial Aid Trust

The budget includes \$1,326,000 from the General Fund in FY 2018 for the Arizona Financial Aid Trust (AFAT). This amount funds the following adjustments:

AFAT Reallocation

The budget includes an increase of \$1,326,000 from the General Fund in FY 2018 for the reallocation of NAU's share of AFAT monies from ABOR to the university. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Student Financial Assistance narrative in the ABOR section for more information.)*

Biomedical Research

The budget includes \$3,000,000 from the General Fund in FY 2018 for the Biomedical Research line item. This amount is unchanged from FY 2017.

Section 132 of the FY 2015 General Appropriation Act appropriated \$3,000,000 annually to NAU from FY 2015 to FY 2019 for biotechnology. As a result, these monies do not appear in the General Appropriation Act.

Funding is to be allocated to a nonprofit medical research foundation that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers. NAU has awarded the funding to the Translational Genomics Research Institute (TGen). *(Please see the Department of Health Services section for additional information on nonprofit medical research funding.)*

NAU - Yuma

The budget includes \$3,069,200 and 29.4 FTE Positions from the General Fund in FY 2018 for NAU-Yuma. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,900 from the General Fund in FY 2018 for statewide adjustments.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

One-Time Funding

The budget includes \$3,202,800 from the General Fund in FY 2018 for the One-Time Funding line item. This amount funds the following adjustments:

Continued One-Time Funding

The budget includes a decrease of \$(797,200) from the General Fund in FY 2018 for the adjustment of one-time funding for capital improvements or operating expenditures. The FY 2017 budget appropriated \$4,000,000 from the General Fund to NAU in FY 2017 that was designated as one-time funding. The FY 2018 budget includes \$3,202,800 from the General Fund that is designated as one-time funding.

Teacher Training

The budget includes \$2,290,600 and 7.5 FTE Positions from the General Fund in FY 2018 for Teacher Training. These amounts are unchanged from FY 2017.

The Teacher Training program serves to increase the number of teachers serving as mentors under the Teacher Training ("Master Teacher") program. The Arizona K-12 Center is affiliated with NAU and is located in downtown Phoenix.

Other Issues

This section includes information on the following topics:

- Summary
- Long-Term Budget Impacts
- University Collections and FTE Positions Adjustments

Summary

NAU's FY 2018 General Fund budget is \$108,612,800. Of this amount:

- \$96,396,200 is included in NAU's individual section of the FY 2018 General Appropriation Act.
- \$117,300 is part of statewide adjustments.
- \$5,896,500 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$3,000,000 was appropriated in Section 132 of the FY 2015 General Appropriation Act for Biomedical Research.
- \$3,202,800 is a one-time appropriation in section 131 of the FY 2018 General Appropriation Act for capital improvements or operating expenditures.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, NAU's General Fund costs are projected to increase by \$1,317,500 in FY 2019 above FY 2018, and \$93,700 in FY 2020 above FY 2019.

These estimates include NAU's annual appropriations for the University Capital Investment Program, as established in A.R.S. § 15-1671 by Laws 2017, Chapter 328. The appropriations will begin in FY 2019 at \$4,520,900 and will grow by 2% or inflation each year thereafter through FY 2043. *(Please see the 2017 University Capital Investment Program narrative in the Capital Outlay - ABOR Building System section for more information.)*

The estimates for FY 2019 are decreased by \$(3,202,800) for the removal of one-time funding. The estimates also include a \$(300) decrease in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 compared to FY 2018 and a \$3,300 increase in FY 2020 above FY 2019. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$145,286,600 from the University Collections Fund to NAU in FY 2017. 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 2017 to the Joint Legislative Budget Committee in June 2016, and NAU incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the estimated FY 2017 amount has been adjusted upward by \$1,996,700 to \$147,283,300.

The FY 2018 University Collections Fund amount is further increased by \$78,800 for statewide adjustments to \$147,362,100.

The 2017 FTE Position count has also been adjusted. Laws 2016, Chapter 117 originally appropriated 2,249.7 FTE Positions in FY 2017 for NAU. The General Fund accounted for 866.1 FTE Positions and the University Collections Fund accounted for the remaining 1,383.6 FTE Positions. The estimated number of FY 2017 FTE Positions has been adjusted by 11.0 to 2,260.7. The General Fund

accounts for 872.3 FTE Positions and the University Collections Fund accounts for the remaining 1,388.4 FTE Positions.

University of Arizona - Main Campus

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5,605.5	6,009.5	6,009.5 ^{1/}
Personal Services	274,493,400	328,570,100	328,570,100
Employee Related Expenditures	103,071,600	121,834,600	126,528,800
Professional and Outside Services	3,166,900	3,314,100	3,314,100
Travel - In State	82,600	66,000	66,000
Travel - Out of State	653,400	52,300	52,300
Other Operating Expenditures	65,901,300	59,807,000	60,725,100
Equipment	100	0	0
OPERATING SUBTOTAL	447,369,300	513,644,100	519,256,400
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	9,593,600	13,978,400	14,249,300 ^{2/}
Agriculture	36,880,500	39,580,600	39,580,600
Arizona Cooperative Extension	15,248,300	16,158,100	16,158,100
Arizona Financial Aid Trust	0	0	2,729,400 ^{3/}
Arizona Geological Survey	0	0	950,400 ^{4/}
Center for the Philosophy of Freedom	500,000	2,500,000	3,500,000 ^{5/6/7/}
Elimination of Payment Deferral	62,153,100 ^{8/}	0	0
Mining, Mineral and Natural Resources Educational Museum	0	428,300	428,300
One-Time Funding	0	8,000,000	3,157,700 ^{5/6/}
Sierra Vista Campus	6,808,100	7,911,200	7,911,200
AGENCY TOTAL	578,552,900	602,200,700	607,921,400 ^{9/10/}
FUND SOURCES			
General Fund	241,652,500 ^{8/}	197,059,600	199,600,900 ^{11/-13/}
<u>Other Appropriated Funds</u>			
University Collections Fund	336,900,400	405,141,100	408,320,500 ^{14/}
SUBTOTAL - Other Appropriated Funds	336,900,400	405,141,100	408,320,500
SUBTOTAL - Appropriated Funds	578,552,900	602,200,700	607,921,400
Other Non-Appropriated Funds	1,018,586,900	1,081,304,400	1,118,100,000
Federal Funds	199,642,100	219,730,900	227,529,600
TOTAL - ALL SOURCES	1,796,781,900	1,903,236,000	1,953,551,000

AGENCY DESCRIPTION — Established in 1885, The University of Arizona (UA) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, UA offers 362 degree-programs and 4 specialist programs to approximately 42,000 full- and part-time students in 39 colleges and schools at its Main Campus in Tucson. Upon its establishment, UA received the federal land grant for Arizona, allowing the creation of agricultural and mining programs that continue today. UA-South is a branch campus of the university in Sierra Vista.

^{1/} Includes 870 GF and 296.1 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} A.R.S. § 15-1670 appropriates \$14,249,300 from the General Fund to finance lease-purchase payments for research infrastructure projects.

^{3/} Prior to the FY 2018 budget, UA's share of the General Fund monies appropriated for the Arizona Financial Aid Trust were included in the ABOR budget.

^{4/} Laws 2017, Chapter 285 is an ongoing appropriation of \$941,000 from the General Fund for the Arizona Geological Survey. As adjusted for statewide appropriations this line item includes \$950,400.

Operating Budget

The budget includes \$519,256,400 and 4,843.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$128,986,500
University Collections Fund	390,269,900

These amounts fund the following adjustments:

Performance Funding Reallocation

The budget includes an increase of \$1,205,000 from the General Fund in FY 2018 for the reallocation of performance funding monies from the Arizona Board of Regents (ABOR) to University of Arizona - Main (UA - Main). The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Performance Funding narrative in the ABOR section for more information.)*

Statewide Adjustments

The budget includes an increase of \$4,407,300 in FY 2018 for statewide adjustments. This amount consists of:

- 5/ The appropriated amount for the Center for the Philosophy of Freedom line item may not supplant any existing state funding or private or external donations to the Center or the Philosophy Department of the University of Arizona. The appropriated monies and all private and external donations to the Center shall be used only for the direct operation of the Center and may not be used for indirect costs of the university. The Center shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Education Committee and the Director of the Joint Legislative Budget Committee on or before October 2, 2017. The report shall include at least the following for the Center: 1) The total amount of funding received from all sources, 2) A description of faculty positions and courses offered, 3) The total undergraduate and graduate student participation, 4) Significant community events, initiatives or publications. The Chairpersons of the Senate Education Committee and the House of Representatives Education Committee may request the Director of the Center to appear before the committees to report on the Center's annual achievements. (General Appropriation Act footnote)
- 6/ A. The sum of \$15,000,000 is appropriated from the state General Fund in FY 2018 to Arizona State University, Northern Arizona University and the University of Arizona for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,639,500, 2) Northern Arizona University \$3,202,800, 3) University of Arizona \$4,157,700. C. \$1,000,000 of the amount appropriated to the University of Arizona pursuant to this section shall be used for operating expenditures of the Center for the Philosophy of Freedom. This amount must supplement and not supplant any existing state funding or private or external donations to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. D. On or before August 1, 2017, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. E. Before any expenditure of the monies appropriated in subsection A of this section for capital improvements, each university shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)
- 7/ The \$1,000,000 of one-time funding restricted to operating expenditures for the Center for the Philosophy of Freedom are displayed as part of the school's line item and are excluded from the amount displayed for the One-Time Funding line item.
- 8/ This appropriation includes a one-time state General Fund appropriation of \$62,153,100 (FY 2017 General Appropriation Act footnote). These funds were appropriated to pay off UA-Main's share of the university rollover.
- 9/ Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 11/ The state General Fund appropriation may not be used for alumni association funding or contracts with individuals or entities for lobbying services. (General Appropriation Act footnote)
- 12/ The FY 2018 General Fund budget as adjusted for statewide adjustments is \$199,600,900. This amount includes \$179,015,600 in UA - Main's individual section of the FY 2018 General Appropriation Act, \$1,237,300 for statewide adjustments, \$14,249,300 in A.R.S. § 15-1670 lease-purchase appropriations, \$941,000 from Laws 2017, Chapter 285 for the Arizona Geological Survey, and a one-time \$4,157,700 appropriation in Section 131 of the FY 2018 General Appropriation Act for capital improvements or other operating expenditures.
- 13/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 14/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2017 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. (General Appropriation Act footnote)

General Fund	1,227,900
University Collections Fund	3,179,400

(Please see the Agency Detail and Allocations section.)

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.)*

2003 Research Infrastructure Lease-Purchase Payment

The budget includes \$14,249,300 from the General Fund in FY 2018 for the 2003 Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes an increase of \$270,900 from the General Fund in FY 2018 to adjust from prior year savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267 (A.R.S. § 15 -1670) appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to UA's current debt service schedule.

Since this funding appears in A.R.S. § 15-1670, this funding would not appear in the FY 2018 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.

(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)

Agriculture

The budget includes \$39,580,600 and 735 FTE Positions in FY 2018 for the Agriculture Programs. These amounts consist of:

General Fund	28,397,500
University Collections Fund	11,183,100

These amounts are unchanged from FY 2017.

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 budget includes \$16,158,100 and 351.2 FTE Positions in FY 2018 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,458,100
University Collection Fund	1,700,000

These amounts are unchanged from FY 2017.

This line item supports Agriculture Experiment Stations and Cooperative Extension services that provide non-credit community outreach seminars and youth programs throughout the state.

Arizona Financial Aid Trust

The budget includes \$2,729,400 from the General Fund in FY 2018 for the Arizona Financial Aid Trust (AFAT). This amount funds the following adjustments:

AFAT Reallocation

The budget includes an increase of \$2,729,400 from the General Fund in FY 2018 for the reallocation of UA's share of AFAT monies from ABOR to the university. The ABOR budget is reduced by the same amount in FY 2018. *(Please see the Student Financial Assistance narrative in the ABOR section for more information.)*

Arizona Geological Survey

The budget includes \$950,400 from the General Fund in FY 2018 for the Arizona Geological Survey. This amount funds the following adjustments:

Geological Survey

Laws 2017, Chapter 285 appropriates \$941,000 from the General Fund in FY 2018 for the Arizona Geological Survey.

Statewide Adjustments

The budget includes an increase of \$9,400 from the General Fund in FY 2018 for statewide adjustments.

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 FY 2017 Agency Consolidation BRB (Laws 2016, Chapter 128) transferred the statutory responsibilities of the Arizona Geological Survey to the University of Arizona effective July 1, 2016. No General Fund funding was appropriated to UA - Main for the Geological Survey in FY 2017. UA provided support of \$941,000 in FY 2017 for the Geological Survey. Laws 2017, Chapter 285 restores the amount of monies the agency received from the General Fund prior to the consolidation with the University of Arizona.

In addition, the Geological Survey also had several non-appropriated and Federal Funds (formerly represented as the Geological Survey Fund, Indirect Cost Recovery Fund - GSA9000, and Federal Grants - GSA2000), which were combined into a single other non-appropriated fund, the Geological Survey Fund, within the UA - Main budget. The monies for the Mining, Mineral and Natural Resources Educational Museum Account are accounted for below in a separate line item. *(For additional details regarding the*

related museum, please see the *Geological Survey in the FY 2017 Appropriations Report and FY 2018 Baseline.*)

Center for the Philosophy of Freedom

The budget includes \$3,500,000 from the General Fund in FY 2018 for the Center for the Philosophy of Freedom (CPF). This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2018 for one-time funding for operating expenditures. *(Please see the One-Time Funding line item narrative above for more information.)*

This line item supports the CPF, which is within the UA College of Social and Behavioral Sciences. The CPF's functions include published research, undergraduate education, graduate education, and community outreach.

Mining, Mineral and Natural Resources Educational Museum

The budget includes \$428,300 and 1 FTE Position from the General Fund in FY 2018 for the Mining, Mineral, and Natural Resources Educational Museum. These amounts are unchanged from FY 2017.

The FY 2017 Agency Consolidation BRB transferred \$428,300 and 1 FTE Position from the General Fund in FY 2017 for the Mining, Mineral and Natural Resources Educational Museum. The Agency Consolidation BRB transferred the Arizona Experience Museum from the Arizona Historical Society (AHS) to the Arizona Geological Survey, which the same legislation placed within the University of Arizona, and renamed as the Mining, Mineral and Natural Resources Educational Museum (Museum). The Museum closed May 1, 2011. AHS subsequently oversaw the collections and building. *(Please see Mining, Mineral and Natural Resources Educational Museum Transfer in the FY 2017 Appropriations report and FY 2018 Baseline for more information.)*

The FY 2017 Agency Consolidation BRB directed the State Geologist with the Mining, Mineral and Natural Resources Educational Museum Advisory Council to produce a report by December 31, 2018 detailing the funding needs of restoring the building as a museum and outline other possible uses. If sufficient monies were not raised by July 1, 2018 to reopen the building, the museum and monies in the account were to revert back to AHS.

Laws 2017, Chapter 221 removed these provisions and directed the Arizona Department of Administration to convey ownership of the property to UA for nominal

consideration by July 1, 2017, and the FY 2018 Budget Procedures Budget Reconciliation Bill (Laws 2017, Chapter 307) as permanent law exempts University of Arizona from paying building rent for the Museum.

This line item now funds a curator and monies that will be used by the University to pay for repairs to the building. Of the total appropriation for the Museum, \$360,800 is available for renovations and the remaining \$67,500 funds a curator position.

One-Time Funding

The budget includes \$3,157,700 in FY 2018 from the General Fund for the One-Time Funding line item. This amount funds the following adjustments:

Continued One-Time Funding

The budget includes a decrease of \$(4,842,300) from the General Fund in FY 2018 for the partial reduction of one-time funding for capital improvements or operating expenditures. The FY 2017 budget appropriated \$8,000,000 from the General Fund to UA in FY 2017 that was designated as one-time funding. The FY 2018 budget includes \$4,157,700 from the General Fund that is designated as one-time funding. Of this amount, however, \$1,000,000 is restricted for operating expenditures of the Center for the Philosophy of Freedom and therefore is displayed in the funding for that line item. *(Please see the Center for the Philosophy of Freedom narrative above for more information.)*

Sierra Vista Campus

The budget includes \$7,911,200 and 78.9 FTE Positions in FY 2018 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,743,700
University Collections Fund	5,167,500

These amounts are unchanged from FY 2017.

UA - South offers upper-division undergraduate programs in 16 disciplines for community college transfer students. While ABOR authorized this UA branch campus for Sierra Vista in 1995, the Legislature has not formally established the campus in statute.

Other Issues

This section includes information on the following topics:

- Summary
- Long-Term Budget Impacts
- University Collections and FTE Positions Adjustments

Summary

UA - Main's FY 2018 General Fund budget is \$199,600,900. Of this amount:

- \$179,015,600 is included in UA - Main's individual section of the FY 2018 General Appropriation Act.
- \$1,237,300 is part of statewide adjustments.
- \$14,249,300 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- Laws 2017, Chapter 285 is an ongoing appropriation of \$941,000 from the General Fund for the Arizona Geological Survey
- \$4,157,700 is a one-time appropriation in section 131 of the FY 2018 General Appropriation Act for capital improvements or operating expenditures, including \$1,000,000 that must be used for operating expenditures of the School of Civic and Economic Thought and Leadership.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, UA- Main's General Fund costs are projected to increase by \$6,395,700 in FY 2019 above FY 2018, and \$(800) in FY 2020 below FY 2019.

These estimates include UA-Main's annual appropriations for the University Capital Investment Program, as established in A.R.S. § 15-1671 by Laws 2017, Chapter 328. The appropriations will begin in FY 2019 at \$10,551,700 and will grow by 2% or inflation each year thereafter through FY 2043. *(Please see the 2017 University Capital Investment Program narrative in the Capital Outlay - ABOR Building System section for more information.)*

The estimates for FY 2019 are decreased by \$(4,157,700) for the removal of one-time funding. The estimates also include a \$1,700 increase in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2019 compared to FY 2018 and a \$(800) decrease in FY 2020 below FY 2019. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

University Collections and FTE Positions Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$361,149,600 from the University Collections Fund to UA - Main in FY 2017. 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 2017 to the Joint Legislative Budget Committee in June 2016, and UA incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the budget has been adjusted upward by \$43,991,500 to \$405,141,100.

The FY 2018 University Collections Fund amount is further increased by \$3,179,400 for statewide adjustments to \$408,320,500.

The FY 2017 FTE Position count has also been adjusted. Laws 2016, Chapter 117 originally appropriated 5,606.5 FTE Positions in FY 2017 for UA - Main. The General Fund accounted for 1,938.7 FTE Positions and the University Collections Fund accounted for the remaining 3,667.8 FTE Positions. The estimated number of FY 2017 FTE Positions has been adjusted by 403 to 6,009.5. The General Fund accounts for 2,063.3 FTE Positions and the University Collections Fund accounts for the remaining 3,946.2 FTE Positions.

University of Arizona - Health Sciences Center

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,375.9	1,157.3	1,157.3 ^{1/}
Personal Services	49,277,000	50,797,800	50,797,800
Employee Related Expenditures	17,501,000	17,643,400	18,629,500
Professional and Outside Services	2,825,500	1,739,700	1,739,700
Travel - In State	32,400	39,400	39,400
Travel - Out of State	163,000	6,700	6,700
Other Operating Expenditures	2,816,800	2,039,900	2,039,900
OPERATING SUBTOTAL	72,615,700	72,266,900	73,253,000
SPECIAL LINE ITEMS			
Clinical Rural Rotation	349,400	353,400	353,400
Clinical Teaching Support	8,587,000	8,587,000	8,587,000
Elimination of Payment Deferral	16,776,700 ^{2/}	0	0
Liver Research Institute	424,700	440,100	440,100
Phoenix Medical Campus	31,460,200	33,034,800	33,034,800
Telemedicine Network	1,838,500	1,669,000	1,669,000
AGENCY TOTAL	132,052,200	116,351,200	117,337,300 ^{3/4/}
FUND SOURCES			
General Fund	85,170,200 ^{2/}	68,859,800	69,437,700 ^{5/6/7/}
<u>Other Appropriated Funds</u>			
University Collections Fund	46,882,000	47,491,400	47,899,600 ^{8/}
SUBTOTAL - Other Appropriated Funds	46,882,000	47,491,400	47,899,600
SUBTOTAL - Appropriated Funds	132,052,200	116,351,200	117,337,300
Other Non-Appropriated Funds	391,961,100	414,458,700	428,965,100
Federal Funds	95,138,800	117,993,400	122,122,900
TOTAL - ALL SOURCES	619,152,100	648,803,300	668,425,300

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.

- 1/ Includes 381.9 GF and 58.3 OF FTE Positions funded from Special Line Items in FY 2018.
- 2/ This appropriation includes a one-time state General Fund appropriation of \$16,776,700 (FY 2017 General Appropriation Act footnote). These funds were appropriated to pay off UA - HSC's share of the university rollover.
- 3/ Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 5/ The state General Fund appropriation may not be used for alumni association funding or contracts with individuals or entities for lobbying services. (General Appropriation Act footnote)
- 6/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 7/ The FY 2018 General Fund budget as adjusted for statewide adjustments is \$69,437,700. This amount includes \$68,859,800 in UA - HSC's individual section of the FY 2018 General Appropriation Act and \$577,900 for statewide adjustments.
- 8/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2017 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. (General Appropriation Act footnote)

Operating Budget

The budget includes \$73,253,000 and 717.1 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$35,132,000
University Collections Fund	38,121,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$986,100 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	577,900
University Collections Fund	408,200

(Please see the Agency Detail and Allocations section.)

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Clinical Rural Rotation

The budget includes \$353,400 and 6.2 FTE Positions from the General Fund in FY 2018 for the Clinical Rural Rotation program. These amounts are unchanged from FY 2017.

This line item funds the Rural Health Professions Program, which enables nurse practitioner, medical, and pharmacy students to plan and complete clinical practice rotations in rural and medically under-served sites throughout the state.

Clinical Teaching Support

The budget includes \$8,587,000 and 215 FTE Positions from the General Fund in FY 2018 for Clinical Teaching Support. These amounts are unchanged from FY 2017.

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 budget includes \$440,100 and 6.6 FTE Positions from the General Fund in FY 2018 for the Liver Research Institute. These amounts are unchanged from FY 2017.

The Liver Research Institute conducts clinical studies on all liver diseases, focusing on chemical and natural agents that may offer a cure for such ailments. The line item also supports a research development program that actively pursues outside grants and donations.

Phoenix Medical Campus

The budget includes \$33,034,800 and 196.9 FTE Positions in FY 2018 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,256,200
University Collections Fund	9,778,600

These amounts are unchanged from FY 2017.

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 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. Of that amount, the JCCR has reviewed \$276,245,000. *(For additional information on university lottery bonding, please see the Capital Outlay - ABOR Building Systems section of this report. For historical information, please see the FY 2015 Appropriations Report.)*

Telemedicine Network

The budget includes \$1,669,000 and 15.5 FTE Positions from the General Fund in FY 2018 for the Telemedicine Network. These amounts are unchanged from FY 2017.

Telemedicine is the use of computers, video imaging, broadband Internet, and other telecommunication technologies to diagnose and treat patients in rural communities.

Other Issues

University Collections Adjustments

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$44,053,800 from the University Collections Fund to UA - HSC in FY 2017. 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 2017 to the Joint Legislative Budget Committee in July 2016, and UA incorporated the adjusted FY 2017 amounts as part of their FY 2018 budget submission. Accordingly, the FY 2017 amount in the budget has been adjusted upward by \$3,437,600 to \$47,491,400.

The FY 2018 University Collections Fund amount is further increased by \$408,200 for statewide adjustments to \$47,899,600.

The FY 2017 FTE Position count has also been adjusted. Laws 2016, Chapter 117 originally appropriated 1,375.9 FTE Positions in FY 2017 for the UA - HSC. The General Fund accounted for 845.7 FTE Positions and the University Collections Fund accounted for the remaining 530.2 FTE Positions. The estimated number of FY 2017 FTE Positions has been adjusted by (218.6) to 1,157.3. The General Fund accounts for 724.8 FTE Positions and the University Collections Fund accounts for the remaining 432.5 FTE Positions.

Department of Veterans' Services

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	512.3	512.3	512.3 ^{1/}
Personal Services	1,274,800	2,178,000	1,512,300
Employee Related Expenditures	591,100	672,100	508,500
Professional and Outside Services	270,200	87,000	75,000
Travel - In State	32,300	17,500	15,000
Travel - Out of State	10,200	2,000	2,000
Other Operating Expenditures	474,300	214,400	193,400
Equipment	49,500	37,000	25,000
OPERATING SUBTOTAL	2,702,400	3,208,000	2,331,200
SPECIAL LINE ITEMS			
Arizona State Veterans' Cemeteries	899,800	924,200	935,200
Arizona State Veterans' Homes	30,189,500	31,147,600	35,492,700
Veterans' Benefit Counseling	2,775,200	2,821,100	2,849,400
AGENCY TOTAL	36,566,900	38,100,900	41,608,500 ^{2/}
FUND SOURCES			
General Fund	5,955,300	6,054,100	6,115,800
<u>Other Appropriated Funds</u>			
State Home for Veterans' Trust Fund	30,189,500	31,147,600	35,492,700
State Veterans' Conservatorship Fund	422,100	899,200	0
SUBTOTAL - Other Appropriated Funds	30,611,600	32,046,800	35,492,700
SUBTOTAL - Appropriated Funds	36,566,900	38,100,900	41,608,500
Other Non-Appropriated Funds	6,953,000	3,052,000	3,152,000
Federal Funds	903,100	2,358,800	2,358,800
TOTAL - ALL SOURCES	44,423,000	43,511,700	47,019,300

AGENCY DESCRIPTION — The agency supervises and operates 2 skilled nursing homes for Arizona veterans in Phoenix and Tucson, assists veterans in developing and filing claims for federal entitlements, acts as a guardian or conservator for incapacitated veterans or their families, and operates 3 veterans' memorial cemeteries in Sierra Vista, Marana, and Flagstaff.

Operating Budget

The budget includes \$2,331,200 and 62.8 FTE Positions from the General Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Eliminate Conservatorship Program

The budget includes a decrease of \$(899,200) from the State Veterans' Conservatorship Fund in FY 2018 for the elimination of the conservatorship program.

In 2011, an Auditor General report recommended the Department of Veterans' Services phase out the conservatorship program or increase fees for their services. The report identified operational issues and

found that fees collected would continue to be insufficient in covering the program cost.

Prior to eliminating the program, the department charged up to 5% of income for services. In addition to fees collected, the department used \$330,000 from the General Fund operating budget appropriation to fund the program. These General Fund monies are now being used to fund a new Information Technology Director and Grants Administrator.

The Department of Veterans' Services is in the process of transferring all conservatorship cases to non-state entities that provide the same services to veterans. All cases will be transferred by the end of FY 2017.

^{1/} Includes 69.5 GF and 380 OF FTE Positions funded from Special Line Items in FY 2018.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes an increase of \$22,400 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Arizona State Veterans' Cemeteries

The budget includes \$935,200 and 12.5 FTE Positions from the General Fund in FY 2018 for the Arizona State Veterans' Cemeteries. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$11,000 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item are used to partially offset the operating and maintenance costs for the 3 veteran cemeteries in the state. The department also receives internment fees from the federal government, which are deposited into the non-appropriated Arizona State Veterans' Cemetery Trust Fund.

The federal government typically pays most of the construction cost, but the state is responsible for the ongoing operational cost. The Marana cemetery opened in March 2016 and the Flagstaff cemetery opened in June 2016.

Arizona State Veterans' Homes

The budget includes \$35,492,700 and 380 FTE Positions from the State Home for Veterans' Trust Fund in FY 2018 for the Arizona State Veterans' Homes. These amounts fund the following adjustments:

Increase Expenditure Authority

The budget includes an increase of \$4,000,000 from the State Home for Veterans' Trust Fund in FY 2018 to allow the veterans' homes additional flexibility to operate at 100% capacity. Prior year revenues to the State Home for Veterans' Trust Fund exceeded the appropriation by about \$3.5 million annually. The budget assumes the ability to serve more patients will generate additional revenues, and revenues will continue to be sufficient to operate the veterans' homes.

Statewide Adjustments

The budget includes an increase of \$345,100 from the State Home for Veterans Trust Fund in FY 2018 for statewide adjustments.

The monies in this line item are used for expenses related to the Arizona State Veterans' Homes in Phoenix and Tucson. Monies in this line item are from fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.

Veterans' Benefit Counseling

The budget includes \$2,849,400 and 57 FTE Positions from the General Fund in FY 2018 for Veterans' Benefit Counseling. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$28,300 from the General Fund in FY 2018 for statewide adjustments.

The monies in this line item are used to assist Arizona veterans with questions about benefit eligibility, completion and filing of U.S. Department of Veterans' Affairs claims, and in obtaining earned benefits.

Other Issues

Status of Veterans' Home Construction

The FY 2015 budget appropriated \$9.2 million in non-lapsing General Fund monies for the state's share of the construction and establishment of a veterans' home facility in Yuma. The FY 2017 budget included \$10.0 million from the General Fund for the construction of a similar home in Flagstaff. The amount appropriated reflects 35% of the estimated cost of each home; the federal government will pay the other 65%. The department has applied for funding from the federal government to pay the other 65% but has not yet received these monies for either home.

Arizona State Veterinary Medical Examining Board

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	263,100	359,200	359,200
Employee Related Expenditures	94,200	111,500	116,700
Professional and Outside Services	43,500	104,800	37,700
Travel - In State	4,600	4,500	4,500
Travel - Out of State	0	1,600	1,600
Other Operating Expenditures	63,400	68,800	68,800
Equipment	1,500	1,500	1,500
AGENCY TOTAL	470,300	651,900	590,000^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Veterinary Medical Examining Board Fund	470,300	651,900	590,000
SUBTOTAL - Other Appropriated Funds	470,300	651,900	590,000
SUBTOTAL - Appropriated Funds	470,300	651,900	590,000
TOTAL - ALL SOURCES	470,300	651,900	590,000

AGENCY DESCRIPTION — The board licenses and regulates veterinarians, veterinary technicians, and veterinary premises.

Operating Budget

The budget includes \$590,000 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2018 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(67,100) from the Veterinary Medical Examining Board Fund in FY 2018 to eliminate one-time funding for expert witness fees \$(8,000), and online licensing implementation costs \$(59,100).

Statewide Adjustments

The budget includes an increase of \$5,200 from the Veterinary Medical Examining Board Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

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

Water Infrastructure Finance Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
SPECIAL LINE ITEMS			
Water Supply Development Revolving Fund Deposit	0	0	0
AGENCY TOTAL	0	0	0
FUND SOURCES			
General Fund	0	0	0
SUBTOTAL - Appropriated Funds	0	0	0
Other Non-Appropriated Funds	192,897,200	0	0
Federal Funds	28,543,100	0	0
TOTAL - ALL SOURCES	221,440,300	0	0

AGENCY DESCRIPTION — The Water Infrastructure Finance Authority (WIFA) finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities/projects. The agency also provides general administrative support to the Greater Arizona Development Authority (GADA). In FY 2017, WIFA and GADA became part of the Arizona Finance Authority within the Office of Economic Opportunity.

Laws 2016, Chapter 372 created the Arizona Finance Authority (AFA) in the new Office of Economic Opportunity (OEO), effective August 6, 2016. The AFA serves as the board for the Water Infrastructure Finance Authority and the Greater Arizona Development Authority (GADA). GADA was previously under the control of WIFA. The FY 2016 actual expenditures for WIFA are displayed in the table above. *(Please see the Office of Economic Opportunity for more information.)*

Department of Water Resources

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	100.0	129.0	139.0 ^{1/}
Personal Services	3,948,400	4,055,900	4,321,900
Employee Related Expenditures	1,511,400	1,515,500	1,699,300
Professional and Outside Services	106,300	235,000	235,000
Travel - In State	69,900	83,200	83,200
Travel - Out of State	62,100	55,500	55,500
Other Operating Expenditures	2,573,200	3,031,700	3,014,900
Equipment	235,700	200,000	209,800
OPERATING SUBTOTAL	8,507,000	9,176,800	9,619,600
SPECIAL LINE ITEMS			
Adjudication Support	749,300	1,247,800	1,749,500 ^{2/}
Assured and Adequate Water Supply Administration	1,523,800	1,977,000	1,998,600 ^{3/}
Automated Groundwater Monitoring	143,900	408,700	413,100
Conservation and Drought Program	300,500	406,900	412,300
Drought Contingency Program	0	0	2,000,000 ^{4/ 5/}
Lower Colorado River Litigation Expenses	1,000	500,000	500,000 ^{5/6/}
Rural Water Studies	1,155,900	1,164,500	1,178,400 ^{7/}
Water Banking Fund	237,400	0	0
Water Protection Fund Deposit	0	250,000	250,000
AGENCY TOTAL	12,618,800	15,131,700	18,121,500 ^{8/}
FUND SOURCES			
General Fund	11,810,100	13,012,600	16,001,900
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	26,600	266,300	266,800
Water Banking Fund	237,400	1,211,400	1,211,400
Water Resources Fund	544,700	641,400	641,400
SUBTOTAL - Other Appropriated Funds	808,700	2,119,100	2,119,600
SUBTOTAL - Appropriated Funds	12,618,800	15,131,700	18,121,500
Other Non-Appropriated Funds	9,772,200	8,610,700	8,610,700
Federal Funds	290,200	339,800	339,800
TOTAL - ALL SOURCES	22,681,200	24,082,200	27,072,000

AGENCY DESCRIPTION — The Department of Water Resources administers and enforces Arizona's groundwater and surface water law, as well as legally representing the state's water rights. The department also participates in surveying water level and quality and planning flood control.

^{1/} Includes 60 GF FTE Positions funded from Special Line Items in FY 2018.

^{2/} Monies in the Adjudication Support line item may be used only for the exclusive purposes prescribed in A.R.S. § 45-256 and A.R.S. § 45-257B4. The Department of Water Resources may not transfer any monies into or out of the Adjudication Support line item. (General Appropriation Act footnote)

^{3/} Monies in the Assured and Adequate Water Supply Administration line item may be used only for the exclusive purposes prescribed in A.R.S. § 45-108 and A.R.S. § 45-576 through A.R.S. § 45-579. The Department of Water Resources may not transfer any monies into or out of the Assured and Adequate Water Supply Administration line item. (General Appropriation Act footnote)

^{4/} The sum of \$2,000,000 is appropriated from the state General Fund in each of FY 2018, FY 2019, and FY 2020 to the Department of Water Resources to use for this state's financial contributions to efforts by Arizona's Colorado River water users to conserve water in Lake Mead to reduce the likelihood of lake elevations dropping to levels that could result in reductions to Arizona's Colorado River allocation. (General Appropriation Act footnote)

^{5/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

Operating Budget

The budget includes \$9,619,600 and 79 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	<u>FY 2018</u>
General Fund	\$8,266,800
Water Banking Fund	1,211,400
Water Resources Fund	141,400

These amounts fund the following adjustments:

Active Management Area Personnel

The budget includes an increase of \$166,300 and 2 FTE Positions from the General Fund in FY 2018 for personnel to aid in enforcement of the 1980 Groundwater Management Act in Active Management Areas. *(For more information on water regulation, please see the Assured and Adequate Water Supply Administration line item.)*

Legal Support

The budget includes an increase of \$121,300 and 1 FTE Position from the General Fund in FY 2018 for personnel to aid providing legal support for the adjudication cases and the ongoing Colorado River litigation.

Geographic Information System (GIS) Personnel

The budget includes an increase of \$93,800 and 1 FTE Position from the General Fund in FY 2018 for personnel to update its GIS system and to improve the data they can provide regarding groundwater usage.

Statewide Adjustments

The budget includes an increase of \$61,400 from the General Fund in FY 2018 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Adjudication Support

The budget includes \$1,749,500 and 21 FTE Positions from the General Fund in FY 2018 for Adjudication Support. These amounts fund the following adjustments:

General Streams Adjudication Personnel

The budget includes an increase of \$477,000 and 6 FTE Positions from the General Fund in FY 2018 for personnel to aid in providing technical data to the Superior Court system in determining, quantifying, and prioritizing water rights.

- 6/ The Department of Water Resources may not transfer any monies from the Lower Colorado River Litigation Expenses line item without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ It is the intent of the Legislature that monies in the Rural Water Studies line item be spent only to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's Active Management Areas and not be made available for other department operating expenditures. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes an increase of \$24,700 from the General Fund in FY 2018 for statewide adjustments.

A.R.S. § 45-256 requires the Department of Water Resources to provide technical and administrative support to judicial proceedings involving water rights claims in the Gila River and Little Colorado River watersheds, which include approximately two-thirds of the land within the state.

Assured and Adequate Water Supply Administration

The budget includes \$1,998,600 and 21 FTE Positions in FY 2018 for the Assured and Adequate Water Supply (AAWS) Administration Program. These amounts consist of:

General Fund	1,731,800
AAWS Administration Fund	266,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$21,600 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	21,100
AAWS Administration Fund	500

All new subdivisions within the state's 5 Active Management Areas (AMAs) must either obtain a Certificate of Assured Water Supply from the Department of Water Resources or obtain a commitment of water service from a municipal provider designated as having an Assured Water Supply. An applicant for a Certificate of Assured Water Supply or a Designation of Assured Water Supply must demonstrate the availability of water for the next 100 years.

New developers outside the 5 AMAs may obtain a commitment of water service from a municipal water provider designated as having an Adequate Water Supply or developers must obtain from the department a report of the water available to the new subdivision for 100 years before any lots may be sold. In most areas outside the AMAs, if the water supply report determined the water supply to be inadequate, lots may still be sold, but buyers must be notified of the determination. In certain

areas outside the AMAs, lots may not be sold unless the water supply is determined to be adequate for 100 years.

Automated Groundwater Monitoring

The budget includes \$413,100 and 2 FTE Positions from the General Fund in FY 2018 for Automated Groundwater Monitoring. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$4,400 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item are to provide for automated measuring instruments, which provide daily measurements of groundwater levels. This information is used to support the administration of all the water management programs that the Department of Water Resources is responsible for, including but not limited to, determining assured and adequate water supply, implementation and evaluation of recharge activities, rural water budgets, and water supply studies.

Conservation and Drought Program

The budget includes \$412,300 and 5 FTE Positions from the General Fund in FY 2018 for the Conservation and Drought Program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$5,400 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item are used to assist local communities to assess conservation needs and assist rural communities in the development of conservation programs, promote water education throughout the state, create guidelines for more efficient use of water, and provide suggestions for funding and implementing conservation programs. Monies in this line item are also used by the Department of Water Resources to administer the requirements of the Community Water System program, including but not limited to annual water use reporting (mailings, electronic notification, and submittals), improvements to increase efficiencies of reporting and data collection, data analysis and compliance.

Drought Contingency Program

The budget includes \$2,000,000 from the General Fund in FY 2018 for the Drought Contingency Program line item. This amount funds the following adjustments:

Lake Mead Conservation Efforts

The budget includes \$2,000,000 from the General Fund in FY 2018 for efforts to conserve water at Lake Mead.

These monies are to be used for Arizona's financial contributions to efforts by Arizona Colorado River water users to conserve water in Lake Mead to reduce the likelihood of lake elevations dropping to levels that could result in reductions to Arizona's Colorado River allocation. If the water level in Lake Mead drops below 1,075 feet, current agreements mandate a reduction of Arizona share of the waters. By paying other water users to keep their water in the lake, the proposal would preserve 410,000 acre feet of Arizona's water allotment in Lake Mead. The state's share for this proposed plan is estimated at \$6.0 million. Of the estimated \$61.5 million cost, the federal government's proposed share is \$42.0 million. The remaining \$19.5 million would come from other Arizona entities.

The monies in this line item are non-lapsing. The FY 2018 General Appropriation Act appropriates \$2,000,000 in funding for FY 2019 and FY 2020 for this item to meet the state's total commitment of \$6.0 million.

Lower Colorado River Litigation Expenses

The budget includes \$500,000 from the Water Resources Fund in FY 2018 for Lower Colorado River Litigation Expenses. This amount is unchanged from FY 2017.

Monies in this line item are used to pay the litigation costs associated with the *Navajo Nation v. United States Department of the Interior* case, in which the Department of Water Resources is an intervening defendant. This case involves the Navajo Nation's claims to water from the Lower Colorado River and challenges operations that were put in place after the initial lawsuit was filed in 2003. The Navajo Nation filed an amended complaint on June 3, 2013 to begin litigating the case. The United States and the state interveners filed motions to dismiss in August 2013, which were granted in October 2014. The case is being appealed.

Rural Water Studies

The budget includes \$1,178,400 and 11 FTE Positions from the General Fund in FY 2018 for Rural Water Studies. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$13,900 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item are used to support the department's administration, data collection, and evaluation of rural water studies. The monies are also used to provide assistance to local communities to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's AMAs. The current AMAs are Prescott, Phoenix, Pinal, Tucson, and Santa Cruz. These studies are administered, in most cases, through partnerships with local resource agency officials and stakeholders. Partnerships generally require local entities to provide some resources to match General Fund receipts, although if a community has a significant need the department can waive this requirement. The studies are primarily conducted by the local entity, with the department providing technical advice and financial assistance. The department is currently involved in 9 studies.

Water Protection Fund Deposit

The budget includes \$250,000 from the General Fund in FY 2018 for the Water Protection Fund Deposit line item. This amount is unchanged from FY 2017.

The FY 2017 budget appropriated \$250,000 from General Fund to the Water Protection Fund on a one-time basis in FY 2017, and the FY 2018 budget makes this an ongoing appropriation.

The Water Protection Fund provides grants for projects that protect water quality and quantity, as well as to maintain, enhance and restore rivers, streams, and associated riparian habitats. The Water Protection Fund Commission reviews grant applications and determine annual recipients.

Other Issues

Additional Legislation

Fee Revenue

The FY 2018 Environment Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 308) continues to allow the Director to maintain prior year fees in FY 2018. The bill specifies that the fee revenue be deposited in the Water Resources Fund with the intent that the fee increases are not to exceed \$100,200.

Administrative Costs

The FY 2018 Environment BRB continues to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2018.

Department of Weights and Measures

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
PROGRAM BUDGET			
General Services	1,362,700	0	0
Oxygenated Fuel	787,500	0	0
Vapor Recovery	611,400	0	0
AGENCY TOTAL	2,761,600	0	0
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	38.4	0.0	0.0
Personal Services	556,100	0	0
Employee Related Expenditures	268,200	0	0
Professional and Outside Services	73,600	0	0
Travel - In State	59,300	0	0
Travel - Out of State	2,100	0	0
Other Operating Expenditures	1,798,700	0	0
Equipment	3,600	0	0
AGENCY TOTAL	2,761,600	0	0
FUND SOURCES			
General Fund	1,182,300	0	0
<u>Other Appropriated Funds</u>			
Air Quality Fund	1,398,900	0	0
Motor Vehicle Liability Insurance Enforcement Fund	180,400	0	0
SUBTOTAL - Other Appropriated Funds	1,579,300	0	0
SUBTOTAL - Appropriated Funds	2,761,600	0	0
TOTAL - ALL SOURCES	2,761,600	0	0

AGENCY DESCRIPTION — The department regulated the determination and representation of weight and measurement in the marketplace and also maintained 2 environmentally related gasoline inspection programs. All programs investigated consumer complaints. Beginning in FY 2017, the responsibilities of the Department of Weights and Measures were transferred to the Arizona Department of Agriculture (ADA), the Arizona Department of Transportation (ADOT) and the Arizona Department of Public Safety (DPS).

Laws 2015, Chapter 244 transferred the Department of Weights and Measures to the Arizona Department of Agriculture (ADA) establishing 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 were transferred to the new Division within the ADA, except for:

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

While the FY 2016 General Appropriation Act appropriated a separate budget for the Department of Weights and Measures, Chapter 244 transferred all appropriated monies of the Department of Weights and Measures to ADA, ADOT and DPS. The FY 2016 actual expenditures for the Department of Weights and Measures are displayed in the table above. *(Please see the Department of Agriculture, the Department of Public Safety, and the Department of Transportation narratives for more information.)*

CAPITAL OUTLAY

**Capital Outlay
Summary**

	FY 2018 APPROVED
BUILDING RENEWAL	
ADOA Building System	14,416,500
ADOT Building System	4,732,300
ABOR Building System	0
SUBTOTAL	19,148,800
INDIVIDUAL PROJECTS	
ADOA Building System	7,750,000
ADOT Building System ^{1/}	375,181,300
ABOR Building System	0
SUBTOTAL	382,931,300
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations ^{2/}	116,614,100
TOTALS	
ADOA Building System	138,780,600
ADOT Building System	379,913,600
ABOR Building System	0
TOTAL - ALL PROJECTS ^{3/}	518,694,200
FUND SOURCES	
General Fund	122,314,100
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	2,600,000
Department of Corrections Building Renewal Fund	6,914,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	530,000
Highway Expansion and Extension Loan Program Fund	30,000,000
State Aviation Fund	24,787,600
State Highway Fund	325,126,000
State Lottery Fund	122,200
State Parks Revenue Fund	5,300,000
SUBTOTAL - Other Appropriated Funds	396,380,100
SUBTOTAL - Appropriated Funds	518,694,200
Other Non-Appropriated Funds	307,165,000
Federal Funds	922,940,000
TOTAL - ALL SOURCES	1,748,799,200

DESCRIPTION — The Capital Outlay Budget consists of one-time appropriations to maintain, expand, enhance, or make a lease-purchase payment for the state's capital stock, which includes office buildings, service centers, residential treatment centers, state parks, prisons, highways, and other. For the purposes of capital management and planning, the state is divided into 3 building systems: the Arizona Department of Administration (ADOA) Building System, the Arizona Department of Transportation (ADOT) Building System, and the Arizona Board of Regents (ABOR) Building System. Capital appropriations are typically made through the Capital Outlay Act but may be made through other bills as well.

^{1/} Of this amount, \$30,000,000 was appropriated by the FY 2018 Revenues Budget Reconciliation Bill (Laws 2017, Chapter 312, Section 8).

^{2/} This amount was appropriated or allocated by the FY 2018 General Appropriation Act (Laws 2017, Chapter 305, Section 133, Section 134 and Section 135).

^{3/} Unless otherwise noted, amounts were appropriated by the FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306).

The following amounts are one-time appropriations:

Summary

The budget includes a total of \$518,694,200 from Appropriated Funds in FY 2018. Of the total, \$122,314,100 is from the General Fund and \$396,380,100 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 budget includes total funding of \$19,148,800 in FY 2018 for Building Renewal, which consists of \$5,700,000 from the General Fund and \$13,448,800 from Other Appropriated Funds. These amounts include:

Arizona Department of Administration	\$8,300,000
General Fund - \$5,700,000	
Capital Outlay Stabilization Fund - \$2,600,000	
@ 20.0% (excludes ADC,	
Game and Fish, Lottery buildings)	
Department of Corrections	
ADC Building	5,464,300
Renewal Fund @ 26.1%	
Game and Fish Department	
Game and Fish Fund @ 57.0%	530,000
State Lottery Commission	
State Lottery Fund @ 100%	<u>122,200</u>
Subtotal - ADOA	\$14,416,500
Arizona Department of Transportation	
State Highway Fund @ 35.8%	\$4,500,000
State Aviation Fund @ 96.0%	<u>232,300</u>
Subtotal - ADOT	\$4,732,300

(See the individual building systems' write-ups for more information.)

Individual Projects

The budget includes total funding of \$382,931,300 in FY 2018 for individual capital projects, which consists of \$382,931,300 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The budget includes \$116,614,100 from the General Fund in FY 2018 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 Facilities District. *(See the Debt and Lease-Purchase Financing write-up for more information.)*

Capital Outlay

Arizona Department of Administration Building System

	FY 2018 APPROVED
BUILDING RENEWAL	
Department of Administration ^{1/2/}	8,300,000
Department of Corrections ^{3/}	5,464,300
Game and Fish Department	530,000
Arizona State Lottery Commission	122,200
SUBTOTAL ^{4/}	14,416,500
INDIVIDUAL PROJECTS ^{5/6/}	
Arizona Exposition and State Fair	
Capital Improvements	1,000,000
Arizona State Parks Board	
Rockin' River Ranch State Park	4,000,000
Capital Improvements	1,300,000
Department of Corrections	
Locking System Replacement	1,450,000
SUBTOTAL	7,750,000
TOTAL - ALL PROJECTS	22,166,500
FUND SOURCES	
General Fund	5,700,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	2,600,000
Department of Corrections Building Renewal Fund	6,914,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	530,000
State Lottery Fund	122,200
State Parks Revenue Fund	5,300,000
SUBTOTAL - Other Appropriated Funds	16,466,500
SUBTOTAL - Appropriated Funds	22,166,500
TOTAL - ALL SOURCES ^{7/8/}	22,166,500

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 2018 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

- ^{1/} 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. The Department of Administration may allocate the appropriation in this subsection for the replacement of modular offices and remote housing at the Department of Public Safety. (Capital Outlay Appropriation Act footnote)
- ^{2/} On or before January 31, 2018 and July 31, 2018, the Department of Administration shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)
- ^{3/} On or before January 31, 2018 and July 31, 2018, the State Department of Corrections shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)

Unless otherwise specified, funding for capital projects is appropriated by Laws 2017, Chapter 306 (FY 2018 Capital Outlay Bill).

Building Renewal

The budget includes \$14,416,500 from the General Fund and Other Appropriated Funds in FY 2018 for Building Renewal within the ADOA Building System. These amounts consist of:

- \$8,300,000 to ADOA, which consists of \$5,700,000 from the General Fund and \$2,600,000 from the Capital Outlay Stabilization Fund (COSF). This amount funds 20% of the ADOA building renewal formula. The FY 2017 appropriation of \$27,000,000 included \$19,000,000 from COSF and \$8,000,000 from the General Fund, which represented 67.8% of the ADOA formula.
- \$5,464,300 to the Arizona Department of Corrections (ADC) from the ADC Building Renewal Fund, which funds 26.1% of the ADC building renewal formula. The FY 2017 appropriation of \$5,464,300 from the ADC Building Renewal Fund represented 27.2% of the ADC formula.
- \$530,000 to Arizona Game and Fish Department from the Game and Fish Fund which funds 57.0% of the Game and Fish building renewal formula. The FY 2017 appropriation of \$530,000 from the Game and Fish Fund represented 59.4% of the Game and Fish formula.
- \$122,200 to the Arizona State Lottery Commission from the State Lottery Fund, which continues to fund 100% of the Lottery building renewal formula. The FY 2017 appropriation of \$118,100 from the State Lottery Fund also represented 100% of the Lottery building renewal formula.

The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306, Section 11) also appropriates \$5,700,000 from the General Fund in FY 2019 to the Department of

Administration to be used for major maintenance and repair activities for state buildings. Of this amount, 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.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The budget continues the footnote requiring that unused building renewal monies revert after 2 fiscal years at the end of FY 2019.

Individual Projects

Arizona Exposition and State Fair Capital Improvements

The budget includes \$1,000,000 from the Arizona Exposition and State Fair Fund in FY 2018 to the State Fair Board for capital improvements.

This includes improvements to the facility in order to ensure that the fair grounds are operable during the month of the state fair and for contracted events year round.

Arizona State Parks Rockin' River Ranch

The budget includes \$4,000,000 from the State Parks Revenue Fund in FY 2018 to the State Parks Board for the Rockin' River Ranch state park project.

Arizona State Parks Board (ASPB) purchased the 210-acre Rockin' River Ranch for \$7 million in 2008 with monies from the Heritage Fund. In September 2016, the Joint Committee on Capital Review favorably reviewed a reallocation of \$200,000 in State Parks Revenue Fund and State Lake Improvement Fund monies to begin Rockin' River Ranch State Park master planning. The favorable review included a provision that ASPB submit the proposed master plan upon its completion to the

- 4/ Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2018 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section may not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- 5/ 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. (Capital Outlay Appropriation Act footnote)
- 6/ Before spending the appropriation in Subsection A of this section (the individual projects as listed), the agency shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 7/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)
- 8/ Notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 and FY 2018 that are unexpended on June 30, 2019 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)

Committee. As of May 2017, ASPB has not completed the proposed master plan.

ASPB estimates a total project cost of \$9,012,600 for Rockin' River Ranch State Park design and construction. Of this amount, \$1,000,000 is budgeted from ADOT's State Parks Roads Program, which funds the acquisition, construction or improvement of state parks roads; \$1,000,000 is budgeted from the Land and Water Conservation Fund, which provides federal matching grants for state park development; and \$7,012,600 would be financed by the State Parks Revenue Fund. Of the \$7,012,600, the FY 2018 budget appropriates \$4,000,000 from the State Parks Revenue Fund for the project and designates these monies as non-lapsing until the end of FY 2019. ASPB plans to request the remaining \$3,012,600 in FY 2019. Of the project's total \$9,012,600 cost, \$8,591,500 is allocated for construction and \$421,100 is allocated for design.

The project's design process began in FY 2017 and will continue into FY 2018. Construction will begin in FY 2018 and continue through FY 2019, with the opening projected for late FY 2019.

The park, situated along the Verde River, will include river access points with beach areas, picnic areas, campgrounds, rental cabins, equestrian facilities, special event areas, and a bed and breakfast concessionaire.

Upon park completion, ASPB estimates annual park revenues of \$1,518,500 and annual park operating expenses of \$645,000.

State Parks Board Capital Improvements

The budget includes \$1,300,000 from the State Parks Revenue Fund in FY 2018 to the State Parks Board for capital improvements.

These improvements may include new capital projects such as camping sites, restroom buildings, shop buildings, or outdoor areas (ramadas, tables and grills). They may also include infrastructure renewal projects, such as: upgrading restrooms, providing electricity to campgrounds, installing broadband/Wi-Fi capabilities, and repainting facilities. In addition, ASPB plans to use these funds to replace road vehicles and boats, which are used extensively by state park law enforcement officers and rangers.

Department of Corrections Capital Improvements

The budget includes \$1,450,000 from the Department of Corrections Building Renewal Fund in FY 2018 to ADC for capital improvements.

ADC proposes using this amount to pay for most of the costs associated with Phase 4 of locking system upgrades

at Arizona State Prison Complex - Eyman. ADC estimates this will be phase 4 of 6 locking system upgrades.

Other Issues

Agency Relocation

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated \$4.2 million to ADOA to renovate the 1740 W. Adams building. Laws 2016, Chapter 126 requires JCCR to review ADOA's tenant relocation plan. At the December 2016 JCCR meeting, the Committee favorably reviewed ADOA's plan.

In April 2017, JCCR favorably reviewed ADOA's plan to reallocate a total of \$1,059,000 to the 1740 West Adams project to reinforce concrete slabs and structural columns. The reallocated funds came from the following sources: \$791,000 in cost savings from other building renewal projects and \$268,000 from its Contingency Allocation, which is set aside from ADOA's building renewal allocation for unforeseen project expenses. ADOA expects the tenants of the building to be moved in by January 2018.

ADOA's plan includes the relocation of most of the state's 90/10 regulatory boards, including those located at Doubletree Road and in privately-leased space along with all the boards and other small agencies currently located at 1400 W. Washington. The proposal would leave 1400 W. Washington empty for potential renovation in FY 2018. Funding for this renovation has not yet been authorized by the Legislature.

The FY 2017 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 127) requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price. The property has not yet been sold.

In addition, the FY 2017 budget appropriated \$576,800 from Other Funds for costs incurred by agencies relocated to the renovated 1740 W. Adams building. The JLBC is required to allocate these monies to agencies and will do so once the tenant plans have been finalized. The FY 2018 budget made this funding non-lapsing through the end of FY 2018.

COSF Rental Rate Change & Payment Adjustments

The budget does not fund changes in agency lease-purchase and rental charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.

Lease-Purchase

In FY 2018, lease-purchase payments will increase by \$182,900, of which \$162,900 is from the General Fund, \$149,900 from Other Appropriated Funds, and \$(129,900) from Non-Appropriated Funds. These amounts exclude the \$8.0 million increase related to the acquisition of the ADC Kingman private prison. This cost is offset by a downward adjustment in the private prison contract. The \$(2,300) change in the ADOA sale/leaseback is also excluded as that item is separately budgeted.

Rent Adjustments

In FY 2018, state building rent payments will decrease by \$(146,500), which consists of \$(323,000) from the General Fund, \$97,200 from Other Appropriated Funds, and \$79,300 from Non-Appropriated Funds.

The Appropriations Report includes an updated Summary of Rent Charges, which reflects updated space utilization amounts when applying the current rental rates of state building space (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.). *(Please see Summary of Rent Charges for additional information.)*

Capital Outlay

Arizona Department of Transportation Building System

FY 2018
APPROVED

BUILDING RENEWAL

ADOT Building Renewal ^{1/2/}	4,732,300
SUBTOTAL	4,732,300

INDIVIDUAL PROJECTS

Airport Planning and Development ^{3/4/}	24,555,300
De-Icer Buildings ^{2/5/}	1,100,000
Safford Equipment Service Shop ^{2/5/}	4,000,000
Tempe Impound Storage Yard ^{2/7/}	240,000
Statewide Highway Construction ^{3/8/}	315,286,000
One-Time HURF Distribution ^{9/}	30,000,000
SUBTOTAL	375,181,300
TOTAL - ALL PROJECTS ^{10/11/12/13/}	379,913,600

FUND SOURCES

Other Appropriated Funds

Highway Expansion and Extension Loan Program Fund	30,000,000
State Aviation Fund	24,787,600
State Highway Fund	325,126,000
SUBTOTAL - Other Appropriated Funds	379,913,600
SUBTOTAL - Appropriated Funds	379,913,600

Other Non-Appropriated Funds	307,165,000
Federal Funds	922,940,000
TOTAL - ALL SOURCES	1,610,018,600

DESCRIPTION — The Arizona Department of Transportation (ADOT) Building System includes all buildings and highways controlled by ADOT. The following includes amounts for state highway construction and other projects related to ADOT's mission

- ^{1/} Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2018 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 amount appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- ^{2/} Notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 and FY 2018 that are unexpended on June 30, 2019 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- ^{3/} The appropriations do not lapse until the purpose for which the respective appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance. (Capital Outlay Appropriation Act footnote)
- ^{4/} The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- ^{5/} The sum of \$1,100,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2018 to the Department of Transportation for the construction of 2 deicer buildings. The Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- ^{6/} The sum of \$4,000,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2018 to the Department of Transportation for the construction of a new equipment service shop in Safford. The Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- ^{7/} The sum of \$240,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2018 to the Department of Transportation for capital improvements to the impound storage yard in Tempe. The Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)

Unless otherwise specified, funding for capital projects is appropriated by Laws 2017, Chapter 306 (FY 2018 Capital Outlay Bill).

Building Renewal

The budget includes \$4,732,300 in FY 2018 for Building Renewal within ADOT's Building System. This amount consists of \$4,500,000 from the State Highway Fund (SHF) and \$232,300 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 35.8% funding of the revised highways building renewal formula and 96.0% funding of the aviation building renewal formula.

Individual Projects

Airport Planning and Development

The budget includes \$24,555,300 from the State Aviation Fund (SAF) in FY 2018 for ADOT's airport construction program. Fund revenues are generated from the jet fuel tax and Grand Canyon Airport operational revenues.

(Please see the Department of Transportation narrative for information on statutory changes to the distributions of the jet fuel tax and aircraft license tax.) A footnote in the FY 2018 Capital Outlay Bill appropriates any additional monies in SAF above the appropriation to ADOT for aviation construction.

De-Icer Buildings

The budget includes \$1,100,000 from SHF in FY 2018 for ADOT to construct 2 new buildings that will house de-icer chemicals and bulk sand, used during winter months to deice highways after the snow has been plowed. Located in Oraibi and Show Low, they will replace insufficient general purpose buildings and outside storage. These facilities will help ADOT incorporate environmental enhancements requested by the Arizona Department of Administration's Risk Management Division, minimizing the potential for environmental incidents. Each de-icer building will cost an estimated \$550,000. In June 2016, the Joint Committee on Capital Review favorably reviewed ADOT's FY 2016 de-icer building project. ADOT's FY 2016 plan allocated \$2,037,300 for 4 de-icer buildings located in Ash Fork, Many Farms, Teec Nos Pos and Willcox. Between FY 2014 and FY 2018, a total of \$7,940,000 has been appropriated for de-icer buildings at 18 sites. The FY 2017 budget did not include any funding for de-icer buildings.

- 8/ The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 9/ A. Notwithstanding any other law, the sum of \$30,000,000 is appropriated on a one-time basis from the Highway Expansion and Extension Loan Program Fund established by A.R.S § 28-7674, in each of FY 2018 and FY 2019 to the Department of Transportation for distribution as follows:
1. To the counties, 33.231%.
 2. To the incorporated cities and towns, 48.097%.
 3. To incorporated cities with a population of 300,000 or more persons, 5.247%.
 4. To counties with a population of more than 800,000 persons, 13.425%.
- B. The allocation and distribution made pursuant to subsection A, paragraphs 1, 2 and 3 of this section shall be made as prescribed in A.R.S § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 4 of this section shall be made as prescribed in A.R.S § 28-6538B.
- C. The amounts appropriated in this section may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto. (Laws 2017, Chapter 312)
- 10/ The Department of Transportation shall report on or before November 1, 2017 to the Joint Committee on Capital Review on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report shall be in the same format as in the prior year unless modifications have been approved by the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. (Capital Outlay Appropriation Act footnote)
- 11/ On or before November 1, 2017, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2019 and the estimated debt service payment amount for FY 2019 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 2017 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 12/ On or before November 1, 2017, the Department of Transportation shall report capital outlay information for FY 2017, FY 2018 and FY 2019 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This information shall appear in the same format as tables 2, 3 and 6, as found in the *FY 2017 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 13/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee-Related Expenditures of state employees, excluding any services provided as part of the Inmate Construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)

Safford Equipment Services Shop

The budget includes \$4,000,000 from SHF in FY 2018 for the replacement of the existing Safford Equipment Services Shop. The regional shop provides maintenance and repairs for state government vehicles and equipment, many of which are characterized by heavy-duty highway maintenance. The new 17,500 square foot shop will address the inadequacies of the existing 2,500 square foot shop by accommodating indoor storage and security for parts and supplies; providing 1.5 stalls per technician to enhance workflow efficiency; and adding sufficient indoor workspace to prevent extreme weather from affecting repairs of heavy duty vehicles and equipment.

Tempe Impound Storage Yard

The budget includes \$240,000 from SHF in FY 2018 for improved security at the Tempe Impound Storage Yard. ADOT's Enforcement and Compliance Division serves certain law enforcement functions, and may seize vehicles used in the commission of a crime. Those vehicles are impounded at a statewide impound storage yard. The funding provides for security measures at the yard, including security cameras, identification card readers, barb wire fencing, and improved semi-truck access into and out of the yard.

Statewide Highway Construction

The budget includes \$315,286,000 from SHF in FY 2018 for controlled access, debt service on bonds, and new construction. A footnote in the FY 2018 Capital Outlay Bill appropriates any additional monies in SHF above the appropriation to ADOT for highway construction.

Controlled Access Highway

The budget includes an estimated urban freeway controlled access funding level of \$101,899,000 from SHF in FY 2018. Please see *Table 6* for the HURF distribution analysis, which shows that after implementing statewide adjustments, \$101,638,000 of net SHF monies will be available for controlled access in FY 2018 rather than \$101,899,000. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service

The budget includes \$108,817,000 from SHF in FY 2018 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,273,945,500 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2018 debt service payments. (Please see *Table 5* for more information on debt service.)

New Construction

The budget includes \$104,570,000 from SHF in FY 2018 for highway construction. Highway construction monies represent the amount that is available for the discretionary SHF to fund the State Transportation Board's 5-year plan after all other allocations have been made. *Table 6* displays the HURF distribution analysis, which shows that after implementing statewide adjustments and additional ADOT highway maintenance funding, \$82,858,000 will be available for statewide highway construction in FY 2018 rather than \$104,570,000. (Please see the *Summary of Highway Construction* section and *Table 6* for more information.)

Table 1 shows the allocation of the highway construction budget prior to statewide adjustments and other State Highway Fund operating issues, which reduces the level of construction funding.

As noted in the HURF distribution table (please see *Table 6*), an additional amount of \$323,839,000 from unspent FY 2017 State Highway Fund monies and the Statewide Transportation Acceleration Account (STAN) will also be available in FY 2018.

Table 1	
State Highway Fund	
FY 2018 Highway Construction & Debt Service	
	<u>Capital Outlay Bill</u>
Controlled Access	\$ 101,899,000 ^{1/}
Debt Service	108,817,000
Highway Construction	<u>104,570,000 ^{2/}</u>
Total	\$315,286,000
^{1/} Adjusted to \$101,638,000 for Highway User Revenue Fund (HURF) operating issues and statewide adjustments.	
^{2/} Adjusted to \$82,858,000 for State Highway Fund and HURF operating issues and statewide adjustments.	

One-Time HURF Distribution

The budget includes a one-time appropriation of \$30,000,000 from the Highway Expansion and Extension Loan Program (HELP) Fund in FY 2018 for local highway construction. It also includes a one-time appropriation of \$30,000,000 from the HELP Fund in FY 2019. (Please see *DPS Operating Budget* for more information.)

Other Issues

Additional Legislation

Amendment of FY 2017 Vehicle Wash Appropriation
Laws 2016, Chapter 126 (FY 2017 Capital Outlay Bill) included \$5,530,000 from SHF in FY 2017 to construct new vehicle wash systems at 10 highway maintenance sites statewide. The FY 2018 budget amends that

appropriation to reduce the funding level to \$2,344,800 for 6 new vehicle wash systems. The remaining \$3,185,200 has been reallocated to local governments for transportation purposes according to the local portion of the HURF formula.

ADOT plans to build the 6 vehicle wash systems in Needle Mountain, Mesa, Douglas, Three Way, Winslow, and Yuma. A wash system includes a 1,200 square foot metal building, a rack frame for handling de-icer material spreaders, and equipment to contain contaminants such as road tar, lubricants and de-icer salts. The wash systems will help ADOT meet wastewater environmental regulations to protect surface and ground water.

FY 2016 Vehicle Wash Appropriation Non-Lapsing Status

The budget extends the non-lapsing status of ADOT's FY 2016 vehicle wash appropriation (Laws 2015, Chapter 9) from the end of FY 2017 to the end of FY 2018. This grants ADOT a 36-month period for expenditure from the time the original appropriation was authorized. In December 2016, the Joint Committee on Capital Review favorably reviewed ADOT's FY 2016 vehicle wash project. ADOT's FY 2016 plan allocated \$2,523,700 for 6 vehicle wash systems located throughout the state. Between FY 2014 and FY 2018, a total of \$9,508,800 has been appropriated for de-icer buildings at 24 sites.

Summary of Non-Appropriated Capital Funds

Table 2 provides a summary of non-appropriated capital expenditures. Non-appropriated capital expenditures are expected to grow from \$1.2 billion in FY 2016 to \$1.5 billion in FY 2017 before falling back to \$1.2 billion in FY 2018. Because of the South Mountain Freeway construction schedule, expenditures from the Maricopa Regional Area Road Fund (MRARF) are noticeably higher in FY 2017 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 2018 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 17, 2016 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 \$973,500,000 for FY 2018. (Please see Table 3 for additional details.)

	FY 2016 <u>Actual</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>
Aviation Federal Funds	\$ 3,480	\$ 3,500	\$ 2,500
Federal Grants	<u>880,101</u>	<u>853,985</u>	<u>920,440</u>
Subtotal - Federal Funds	\$ 883,581	\$ 857,485	\$ 922,940
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Highway Expansion and Extension Loan Program Fund	0	0	0
Local Agency Deposits Fund	14,571	8,000	8,000
Maricopa Regional Area Road Fund	322,428	584,769	298,165
Subtotal - Other Non- Appropriated Funds	\$ 337,999	\$ 593,769	\$ 307,165
Total	\$1,221,580	\$1,451,254	\$1,230,105

Table 3

**State Highway Fund
Highway Construction Projects Beginning in FY 2018
(\$ in Thousands)**

	<u>FY 2018</u> ^{1/}
Construction	\$125,835
Urban Controlled Access ^{2/}	527,600
Pavement Preservation Maintenance	251,693
Other ^{3/}	<u>68,372</u>
Total	\$973,500

^{1/} Data from ADOT's 2017-2021 5-Year Transportation Facilities Construction Program.

^{2/} Includes expenditures from HURF for controlled access, PAG, and MRARF.

^{3/} Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2018 budget appropriates \$315,286,000 for highway construction, including \$104,570,000 of net SHF monies for statewide highway construction, prior to other adjustments described above.

Table 5 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 2016 through FY 2018 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 2018 by category of construction.

Table 5 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

For FY 2016, Table 5 shows that total FY 2016 cash highway construction expenditures were \$1.1 billion while \$304.3 million was spent on debt service. In FY 2017, total estimated cash highway construction expenditures are \$1.6 billion with total debt service of \$272.9 million. In FY 2018, total estimated cash highway construction expenditures are \$1.4 billion with total debt service of \$321.9 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 \$126.9 million in FY 2016, \$140.6 million in FY 2017, and \$147.1 million in FY 2018. Of the \$321.9 million total debt service amount in Table 5, only \$108.8 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 2016 through FY 2018. The line in Table 6 showing net SHF Available for Statewide Highway Construction, which totals \$82,858,000 (originally estimated to be \$104,570,000 in JLBC Baseline and the Capital Outlay Bill) for FY 2018. The \$82,858,000 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 2016 HURF collections of \$1,356,800,000 were 5.1% above FY 2015. As of April 2017, HURF year-to-date collections were 3.3% higher than the prior year.

The gas tax is the primary source of HURF collections, accounting for 36% of HURF revenue in FY 2016. Gas prices remain low with the average price per gallon of regular gasoline in Arizona at \$2.29 in May 2017, or 15

cents per gallon higher than a year ago, according to the American Automobile Association.

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	<u>42.8%</u>
Total	100.0%

^{1/} A.R.S. § 28-6538 distributes 50.5% of HURF monies to SHF, with 12.6% of the monies distributed to SHF being allocated to controlled access highways in Maricopa and Pima Counties. The State Transportation Board adds 2.6% by Board Policy to the statutory 12.6%, making a total of 15.2% of SHF monies set aside for controlled access highways (50.5% of 15.2% = 7.7% displayed in the table above). The controlled access monies are divided: 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

Table 5

Highway Construction and Debt Service Expenditures by Fund Source
(\$ in Millions)

<u>Sources</u>	<u>FY 2016</u> <u>Actual</u>	<u>FY 2017</u> <u>Estimate</u>	<u>FY 2018</u> <u>Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 113.6	\$ 116.3	\$ 108.8
HURF - MAG Debt Service	30.5	27.0	38.9
MAG/PAG 15.2% Controlled Access - Construction Expenditures	(2.4)	217.6	36.8
Net SHF Funds Available for Statewide Highway Construction Expenditures	4.9	55.5	82.9
Total SHF - Appropriated	\$ 146.6	\$ 416.4	\$ 267.4
Non-Appropriated			
SHF Highway Construction ^{1/}	\$ 14.0	\$ 1.0	\$ -
Total SHF - Non-Appropriated	\$ 14.0	\$ 1.0	\$ -
Total SHF Highway Construction Expenditures	\$ 160.6	\$ 417.4	\$ 267.4
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 880.1	\$ 854.0	\$ 920.4
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 167.6	\$ 416.1	\$ 84.6
MRARF Debt Service	103.3	100.8	144.2
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 270.9	\$ 516.9	\$ 228.8
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 67.0	\$ 87.3	\$ 63.3
MRARF - Highway Construction Expenditures	0.9	-	210.0
GAN - Highway Construction Expenditures	0.0	30.0	66.8
Total Bond Proceeds Highway Construction Expenditures	\$ 67.9	\$ 117.3	\$ 340.1
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 14.6	\$ 8.0	\$ 8.0
Total Local Agency Deposits Fund	\$ 14.6	\$ 8.0	\$ 8.0
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	14.6	8.0	8.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 14.6	\$ 8.0	\$ 8.0
Total Highway Construction Expenditures	\$ 1,394.1	\$ 1,913.6	\$ 1,764.7
Total Debt Service			
SHF	\$ 144.1	\$ 143.3	\$ 147.7
Federal Aid	56.9	28.8	30.0
MRARF	103.3	100.8	144.2
Total Debt Service	\$ 304.3	\$ 272.9	\$ 321.9 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 16.5	\$ 274.1	\$ 119.7
Federal Aid	823.2	825.2	890.4
MRARF	167.6	416.1	84.6
Bond Proceeds	67.9	117.3	340.1
Local Agency Deposits Fund	14.6	8.0	8.0
Total Cash Highway Construction Expenditures	\$ 1,089.8	\$ 1,640.7	\$ 1,442.8
Total Highway Construction Expenditures	\$ 1,394.1	\$ 1,913.6	\$ 1,764.7

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$147,708,000 for HURF bonds (\$108,817,000 for statewide program and \$38,891,000 MAG program); \$29,990,000 for Grant Anticipation Notes; and \$144,239,000 for MRARF bonds.

Table 6

Highway User Revenue Fund (HURF) Distribution
(\$ in Thousands)

	FY 2016	FY 2017	FY 2018
	Actual	Estimate	Estimate
Total HURF Collections	\$1,356,752	\$1,415,600	\$1,476,400
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	653	650	658
Dept. of Public Safety Transfer from HURF ^{3/}	96,409	96,006	99,399
Reversions from DPS	(1,374)	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	\$1,230,064	\$1,287,944	\$1,345,343
Less: Cities ^{5/}	375,170	392,823	410,330
Counties ^{5/}	233,712	244,709	255,615
VLT Transfer to Parity Compensation Fund ^{6/}	2,973	3,216	3,427
VLT Transfer to General Fund (5-Year VLT) ^{7/}	1,488	1,600	1,700
VLT Transfer to General Fund (Abandoned Vehicle) ^{8/}	4,754	5,200	5,600
Controlled Access ^{9/}	<u>93,019</u>	<u>97,340</u>	<u>101,638</u>
Net SHF (Discretionary)	\$ 518,948	\$ 543,056	\$ 567,033
Plus: Other Income ^{10/}	28,504	32,450	33,650
Less: Operating Budget ^{11/}	340,975	348,135	361,131
Dept of Public Safety Transfer from Highway Fund ^{12/}	7,169	7,302	8,714
Capital Outlay	2,788	2,345	5,340
Local Assistance ^{13/}	0	3,185	0
Building Renewal	4,000	4,000	4,500
Motor Vehicle Third Party Payments ^{14/}	27,010	27,189	28,968
Miscellaneous	626	730	355
Debt Service ^{15/}	<u>113,593</u>	<u>116,277</u>	<u>108,817</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{16/}	\$ 51,291	\$ 66,343	\$ 82,858
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	323,903	379,172	240,981
STAN Account Beginning Balance	<u>17,292</u>	<u>993</u>	<u>0</u>
Total SHF Available for Statewide Highway Construction	\$ 392,486	\$ 446,508	\$ 323,839

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2017 amount of \$649,700 includes \$(3,000) for statewide adjustments. The FY 2018 amount of \$658,400 includes \$8,700 for statewide adjustments.

^{3/} The FY 2017 amount of \$96,006,100 includes \$(403,100) for statewide adjustments. The FY 2018 amount of \$99,398,700 includes no funding for statewide adjustments.

^{4/} The FY 2016 Revenue BRB (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the DPS budget. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues in FY 2018 the special \$30 million HURF distribution to local governments and provides a new, one-time \$30 million distribution of General Fund monies to local governments for the same purpose. The FY 2018 Revenues BRB (Laws 2017, Chapter 312) continues in FY 2019 the \$30 million HURF distribution to local governments and requires in FY 2020 a \$60 million HURF distribution to local governments. The FY 2018 Revenue BRB also provides in both FY 2018 and FY 2019 a new, one-time \$30 million distribution of Highway Expansion and Extension Loan Program (HELP) Fund monies to local governments for the same purpose.

^{5/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{6/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{7/} A.R.S § 28-5808E transfers the SHF share of the HURF VLT to the state General Fund that is generated from the difference between a 2-year registration and a 5-year registration.

^{8/} A.R.S § 28-5808D also transfers the SHF share of the HURF VLT to the state General Fund that is equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B to the state General Fund.

^{9/} A statutorily defined distribution of SHF monies for design, acquisition and construction of controlled access highways. The monies are divided 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

^{10/} Includes interest and rental income, transfers from the Public Roads Fund, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2016 amount of \$28,504,000 includes \$27,851,300 in miscellaneous revenue and \$652,700 for the Registration Compliance program. The FY 2017 estimate of \$32,450,000 includes \$31,800,300 in miscellaneous revenue and \$649,700 for the Registration Compliance program. The FY 2018 estimate of \$33,650,000 includes \$32,991,600 in miscellaneous revenue and \$658,400 for the Registration Compliance program.

^{11/} The FY 2017 amount of \$348,134,700 includes \$(1,281,900) for statewide adjustments. The FY 2018 amount of \$361,130,800 includes \$4,207,700 for statewide adjustments.

^{12/} The FY 2017 amount of \$7,301,800 includes \$(29,500) for statewide adjustments. The FY 2018 amount of amount of \$8,713,500 includes \$1,132,600 for statewide adjustments.

^{13/} This amount is for distribution as follows: With allocations as prescribed in A.R.S § 28-6540, 1) To the counties, 33.231%. 2) To the incorporated cities and towns, 48.097%. 3) To incorporated cities with a population of 300,000 or more persons, 5.247%, and with allocations as prescribed in A.R.S § 28-6538B, 4) To counties with a population of more than 800,000 persons, 13.425%. This amount may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto. (Capital Outlay Appropriation Act footnote)

^{14/} Statutory payments to third parties from VLT collected by third parties.

^{15/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{16/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Capital Outlay

Arizona Board of Regents Building Systems

FY 2018
APPROVED

BUILDING RENEWAL

Arizona Board of Regents

TOTAL - ALL PROJECTS

0

0^{1/2/}

FUND SOURCES

General Fund

TOTAL - ALL SOURCES

0

0

DESCRIPTION — The Arizona Board of Regents (ABOR) Building System is comprised of buildings controlled by ABOR on behalf of the universities.

Legal Structure

Pursuant to A.R.S. § 15-1682, the Arizona Board of Regents (ABOR) has the authority to lease, own, operate, and secure financing for building facilities for each of the 3 universities under its jurisdiction.

ABOR is the university system's sole legal entity created under the State Constitution. Pursuant to A.R.S. § 15-1601, ABOR maintains Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). While ABOR delegates the authority to sign contracts to the presidents of each university, all contracts are legally established under ABOR, and all properties are legally held by ABOR, not the individual universities.

When debt is issued for a university project, only revenues from the respective university are pledged for the project's debt service payments. As a result, financing terms are dependent upon each university's individual credit rating, but all debt is formally issued by ABOR.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on a formula determined by the Joint Committee on Capital Review (JCCR). As required by A.R.S. § 41-793.01, the formula takes into account the replacement value, age, and life cycle of a building. The budget includes no funding for Building Renewal in the ABOR Building System.

One-Time Funding

Section 131 of the FY 2018 General Appropriation Act appropriates \$15,000,000 to the universities from the General Fund in FY 2018 for one-time operating expenditures or capital improvements. Of this amount, \$7,639,500 is appropriated to ASU, \$3,202,800 is appropriated to NAU, and \$4,157,700 is appropriated to UA.

Of the amounts appropriated to ASU and UA, \$1,000,000 from each is allocated for use toward operating expenditures of the School of Civic and Economic Thought

^{1/} A. The sum of \$15,000,000 is appropriated from the state General Fund in FY 2018 to Arizona State University, Northern Arizona University and the University of Arizona for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,639,500, 2) Northern Arizona University \$3,202,800, 3) University of Arizona \$4,157,700. B. \$1,000,000 of the amount appropriated to Arizona State University pursuant to this section shall be used for operating expenditures of the School of Civic and Economic Thought and Leadership. This amount must supplement and not supplant any existing state funding or private or external donations to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. C. \$1,000,000 of the amount appropriated to the University of Arizona pursuant to this section shall be used for operating expenditures of the Center for the Philosophy of Freedom. This amount must supplement and not supplant any existing state funding or private or external donations to the center. The appropriated monies and all private and external donations to the center shall be used only for the direct operation of the center and may not be used for indirect costs of the university. D. On or before August 1, 2017, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. E. Before any expenditure of the monies appropriated in this section for capital improvements, each university shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)

^{2/} The one-time appropriation for operating expenditure or capital improvement projects has been included in the universities' individual agency sections.

and Leadership and the Center for the Philosophy of Freedom, respectively.

A General Appropriation Act footnote requires review by the Joint Committee on Capital Review for any of these monies that are used for capital projects.

These monies are included in the General Fund budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Summary of University Debt

ABOR estimates that as of the end of FY 2018, the universities' outstanding principal balances for bonds and lease-purchase agreements will total \$3,450,190,500. This debt would be held by the 3 universities as follows:

ASU (all campuses)	\$1,639,474,500
NAU	478,055,000
UA (all campuses)	<u>1,332,661,000</u>
Total	\$3,450,190,500

ABOR estimates that the universities' total debt service payments for bonds and lease-purchase agreements in FY 2018 will be \$305,160,600. The debt service payments made by each of the universities would be as follows:

ASU (all campuses)	\$133,009,400
NAU	42,428,200
UA (all campuses)	<u>129,723,000</u>
Total	\$305,160,600

Of the total FY 2018 debt service payments, \$39,923,100 would be paid by Lottery monies, and \$33,626,600 would be paid by the General Fund for research infrastructure projects. The remainder is funded from other non-appropriated funds. *(Please see Lease-Purchase Projects below for more information.)*

The universities' expenditures for debt service payments are included in the budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Lease-Purchase Projects

As part of the \$3,450,190,500 in FY 2018 university debt, ABOR is projected to have \$624,475,500 in outstanding lease-purchase balances, with an overall debt service payment of \$83,315,800. The FY 2018 General Fund share of the debt service is \$33,626,600. These General Fund 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.

Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to the universities' current debt service schedules.

Bonding

As part of the \$3,450,190,500 in FY 2018 university debt, ABOR is projected to have \$2,825,715,000 in outstanding bond balances, including both system revenue and lottery bonds. The projected debt service is \$221,844,800.

University Lottery Bonds

One component of the \$2.8 billion balance is university lottery revenue (Stimulus Plan for Economic and

Table 1

University Lottery Bond 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
	NAU	<u>15,040,000</u>	<u>8,200,000</u>	<u>7,475,000</u>	<u>7,565,000</u>	<u>0</u>
<i>Subtotal</i>		<i>\$376,000,000</i>	<i>\$276,245,000</i>	<i>\$259,020,000</i>	<i>\$116,980,000</i>	<i>0</i>
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

Educational Development (SPEED) 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 for new 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.

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 \$49,903,900 in FY 2018, 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, and the FY 2018 Baseline for more historical information.)

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 \$54,958,400 in FY 2018. This estimate solely reflects the total available after other lottery distributions and does not reflect planned usage. Since

Table 2

University Lottery Bonding Projects ^{1/}

		<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Projected Lottery Revenue to UCI Fund ^{2/}		\$ 54,283,900	\$ 47,550,200	\$ 54,958,400	\$ 64,630,600	\$ 74,788,400
Building Renewal Projects						
Lottery Debt Service	80%	\$ 24,664,100	\$ 25,699,700	\$ 25,698,200	\$ 25,694,200	\$ 25,688,300
University Debt Service	20%	<u>6,166,000</u>	<u>6,424,900</u>	<u>6,424,600</u>	<u>6,423,500</u>	<u>6,422,100</u>
Total Debt Service for \$395.2 M		\$ 30,830,100	\$ 32,124,600	\$ 32,122,800	\$ 32,117,700	\$ 32,110,400
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 13,218,600	\$ 13,460,100	\$ 13,457,800	\$ 13,453,700	\$ 13,452,900
University Debt Service	20%	<u>3,304,600</u>	<u>3,365,000</u>	<u>3,364,500</u>	<u>3,363,400</u>	<u>3,363,200</u>
Total Debt Service for \$259.0 M ^{3/}		\$ 16,523,200	\$ 16,825,100	\$ 16,822,300	\$ 16,817,100	\$ 16,816,100
ASU School of Construction						
Lottery Debt Service	80%	\$ 764,900	\$ 767,100	\$ 767,100	\$ 766,800	\$ 768,000
University Debt Service	20%	<u>191,200</u>	<u>191,800</u>	<u>191,700</u>	<u>191,700</u>	<u>192,000</u>
Total Debt Service for \$14.5 M		\$ 956,100	\$ 958,900	\$ 958,800	\$ 958,500	\$ 960,000
Total Lottery Share at 80% ^{4/}		\$ 38,647,600	\$ 39,926,900 ^{5/}	\$ 39,923,100 ^{5/}	\$ 39,914,700	\$ 39,909,200
Projected University Cost ^{4/5/6/}		\$ 9,661,800	\$ 9,981,700	\$ 9,980,800	\$ 9,978,600	\$ 9,977,300

^{1/} Represents JCCR reviewed projects and issuances.

^{2/} Revenue estimates are based on a (2.8)% decrease in annual Lottery revenues in FY 2017, followed by a 4.9% increase in FY 2018 and 5.0% annual increase thereafter. Represents the maximum amount of revenue available to the UCI Fund. UCI Fund revenues would not exceed the actual total lottery share of debt service in a given year. (See Total Lottery share at 80% line.)

^{3/} This amount consists of: 1) \$122,245,000 issued by UA in 2010 for Phase I of the Phoenix Biomedical Campus; 2) \$7,475,000 issued by NAU and \$8,600,000 by UA in 2013 for shell space and 3) \$120,700,000 issued by UA in 2014 for the Bioscience Partnership Building.

^{4/} The sum of Total Lottery Share at 80% and Projected University Cost represents the total debt service for the bond issuances. (See the Capital Debt and Lease-Purchase section for more information.)

^{5/} ABOR reports that the total lottery share will be \$39,926,900 in FY 2017 and \$39,923,100 in FY 2018. The amounts displayed above reflect estimates made in October 2016 based on available information from ABOR.

^{6/} Represents the 20% university share.

the maximum 80% lottery portion of the debt service is assumed to be \$39,923,100, in FY 2018, the budget assumes the remaining \$15,035,300 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 \$9,980,800 in FY 2018.

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 2018 enacted budget and ABOR debt service estimates from October 2016.

University Capital Investment Program

Laws 2017, Chapter 328 establishes A.R.S. § 15-1671, which provides General Fund appropriations from FY 2019 - FY 2043 for new university research facilities, building renewal, or other capital construction projects. The law appropriates \$27,000,000 to the universities in FY 2019 and increases the appropriation each year thereafter by 2.0% or the rate of inflation, whichever is less. The FY 2019 appropriations are allocated to each university as follows:

- ASU: \$11,927,400
- NAU: \$4,520,900
- UA: \$10,551,700
- Total: \$27,000,000

The universities may use these monies for debt service on infrastructure long-term-financing and for cash construction costs. New debt issued under this program may not exceed \$1.0 billion.

Under the law, each university's General Fund appropriation will be deposited into a newly-created capital infrastructure fund (CIF). Each university will match any General Fund contributions to its fund that are used for debt service payments at a 1:1 rate.

Debt service payments made on CIF funded projects will be included in the statutory debt limit. *(Please see University Debt Ratio Policy for more information.)*

Any cash-based capital projects funded with CIF monies must be reviewed by the Joint Committee on Capital Review, and any debt-financed projects funded with CIF monies must be approved by the Committee. The Committee must hear and review, approve, or disapprove, as applicable, each CIF funded project by its second meeting after the request date.

University Debt Ratio Policy

In authorizing ABOR to issue bonds on behalf of the universities, A.R.S. § 15-1683 limits the debt service payments each university is allowed to make based on its financial resources.

Specifically, the statute requires that the projected debt service payments on outstanding and proposed bonds and certificates of participation (COPs) not exceed 8.0% of each institution's total projected expenditures and mandatory transfers in any fiscal year. As noted above, the university lottery bonds (otherwise known as SPEED) are exempt from the debt ratio calculations.

The universities' FY 2016 Debt Capacity Reports project expected debt ratios through FY 2025. The rate and year in which each university is projected to have its highest debt ratio is listed below. The ratio is also displayed if the university lottery bonds were applied to the calculation.

- ASU: 4.8% (5.2% with SPEED) in FY 2019
- NAU: 5.4% (7.4% with SPEED) in FY 2018
- UA: 5.3% (6.6% with SPEED) in FY 2017

The universities estimate that they have the capacity to issue \$2.3 billion in additional debt based on these debt service ratios.

If the universities were to increase their debt service payments by \$54.0 million in FY 2019 as a result of the University Capital Investment Program (funded with the \$27.0 million General fund appropriation and a \$27.0 million university match), the universities' debt ratios could increase to approximately 5.7% (ASU), 7.1% (NAU), and 6.4% (UA), excluding SPEED bonds. (The actual ratios could be different depending on the growth in university expenditures and the amount of capital infrastructure funds used for cash, rather than debt-financed, projects).

Capital Outlay

Debt and Lease-Purchase Financing

FY 2018
APPROVED

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing	84,115,100 ^{1/2/}
Phoenix Convention Center	22,499,000 ^{3/}
Rio Nuevo Distribution	10,000,000 ^{4/}
TOTAL - ALL PROJECTS	116,614,100

* 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	116,614,100
TOTAL - ALL SOURCES	116,614,100

DESCRIPTION — This section summarizes the state’s debt and lease-purchase obligations.

2010 Leaseback Financing

The budget includes \$84,115,100 from the General Fund in FY 2018 for lease-purchase payments related to the \$1,035,419,300 state building sale/leaseback agreements.

The FY 2010 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 6) and Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to enter into sale/leaseback agreements in FY 2010 for existing state-owned facilities, requiring the funds to be deposited to the General Fund to subsidize state operating expenses. ADOA sold the issuances in 2 series (January 2010 and June 2010) at an average tax-exempt interest rate ranging from 4.37% to 4.57%, with an effective yield of approximately 4%. These issuances range up to 20 years in period of time, however, optional prepayment by the state is prohibited by the agreements until FY 2020. (Please see the Debt and Lease-Purchase Financing narrative pages in the FY 2013 Appropriations Report for more information.)

The sale/leaseback agreements were issued as a tax-exempt deficit financing mechanism in which the proceeds were used for state operational expenses. In

this circumstance, the federal government essentially required the state to agree to 1 of 2 requirements:

The state ultimately chose the "Investment Yield Restriction," which 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 is required to restrict the yield on investments with a value equal to the current level of outstanding financing – which at the end of FY 2018 is expected to be \$1.07 billion. This amount includes both the 2010 Leaseback as well as the Lottery Revenue Bonds. The yield restriction exists for the entire term of the operating financing. (Please see the FY 2017 Appropriations Report for more background on this issue.)

Laws 2015, 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 (OSP) 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 October 2016, ADOA reported that there were no costs associated with meeting the Investment Yield Restriction

^{1/} The sum of \$60,103,600 is appropriated from the State General Fund in FY 2018 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2009, 3rd Special Session, Chapter 6, Section 32. (General Appropriation Act footnote)

^{2/} The sum of \$24,011,500 is appropriated from the State General Fund in FY 2018 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2010, 6th Special Session, Chapter 4, Section 2. (General Appropriation Act footnote)

^{3/} Pursuant to A.R.S. § 9-602, \$22,499,000 of General Fund revenue is allocated in FY 2018 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601. (General Appropriation Act footnote)

^{4/} Pursuant to A.R.S. § 42-5031, a portion of the state transaction privilege tax revenues will be distributed to a Multipurpose Facility District. The Rio Nuevo Multipurpose Facility District is estimated to receive \$10,000,000 in FY 2018. The actual amount of the distribution will be made pursuant to A.R.S. § 42-5031. (General Appropriation Act footnote)

requirements. ADOA stated the requirements have not reduced the yield of investments and there have been no penalties paid to the federal government.

Phoenix Convention Center

The budget includes \$22,499,000 from the General Fund in FY 2018 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 \$22,499,000 in FY 2018 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.

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 latest study found that estimated General Fund revenues exceeded the state’s debt service payments by \$50,400,000 during the time period from 2009 to 2016. As a result, the state’s payment remained the same. The net increase was largely due to the state’s low introductory debt service payments. In calendar year 2016, \$20,647,000 in added revenues from the project was \$198,000 above of the \$20,449,000 in debt payments.

Rio Nuevo Distribution

The budget includes an estimated \$10,000,000 from the General Fund in FY 2018 for debt service payments to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facility District.

Rio Nuevo district distributions were originally accounted for as a reduction of state transaction privilege tax (TPT) revenue. Beginning in FY 2016, these payments are displayed as a state expenditure. Actual payments to the district increased from \$6,958,000 in FY 2015 to \$13,088,800 in FY 2016. The actual amount distributed in future years 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. Laws 1999, Chapter 172 required the district’s municipality to spend a matching amount on projects by the district’s expiration date in order to receive state TPT revenues.

Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

Laws 2009, 4th Special Session, Chapter 3, clarified that Rio Nuevo could receive payments until the project’s expiration date (July 1, 2025), or until the date all authorized debt service payments are completed, whichever date is earlier.

Through FY 2016, Rio Nuevo has received a total of \$138,423,350 in TPT distributions from the state (see Table 1).

Table 1
State TPT Payments to the Rio Nuevo District

<u>Fiscal Year</u>	<u>Distributions</u>
FY 2016	\$13,088,813
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	5,081,197
Total	\$138,423,350

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. AA represents the agency's third highest rating out of 10 possible levels. Using Standard & Poor's credit ratings as of November 2016, in comparison to other states, 28 states have a higher rating, 12 states have the same rating, and 9 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) K-12 inflation 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 2 different types of transactions.

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.

Excluding the ADOA sale/leaseback (which is budgeted separately) and the ADC Kingman refinance (as the agency has retained sufficient funding for the lease-purchase payment change), in FY 2018 ADOA Building System lease-purchase payments will increase by \$182,900, of which \$162,900 is from the General Fund, \$149,900 is from Other Appropriated Funds, and \$(129,900) is from Non-Appropriated Funds. The agency funding levels have not

been adjusted for the FY 2018 changes to lease-purchase payments. As a result, the relevant agencies would absorb any costs associated with revised lease-purchase payments. At the end of FY 2018, the outstanding balance of lease-purchase agreements is expected to be \$2,439,828,100. *(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 2018 bond payment will be \$37,500,800. This results in the General Fund receiving \$(37,500,800) less in Lottery revenues in FY 2018. However, since this is not a General Fund appropriation, it does not appear in the General Fund Balance and Payment columns in Table 2.

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>1/</u>	<u>GF Balance</u>	<u>1/</u>	<u>Overall FY 18 Payment</u>	<u>2/</u>	<u>FY 18 GF Payment</u>	<u>2/</u>	<u>Retirement FY</u>
<u>ADDA Building System</u>									
2008 A Issuance									
ADC 4000 Prison Beds, Wastewater and DHS Forensic Lab	\$	33,818,500	\$	33,818,500	\$	14,210,200	\$	14,210,200	FY 28
2010 A/B Issuance									
Sale/Leaseback	\$	756,730,000	\$	756,730,000	\$	84,115,100	\$	84,115,100	FY 30
2013 A Issuance									
PLTO Refinance - DHS Building	\$	19,350,000	\$	-	\$	3,323,900	\$	1,994,100	FY 29
2013 B Issuance									
Refinance - 2002A Health Lab	\$	9,015,000	\$	-	\$	2,033,300	\$	-	FY 23
Refinance - 2004B Prisons		2,995,000		2,995,000		3,071,900		3,071,900	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	\$	46,925,000	\$	46,925,000	\$	9,454,600	\$	1,988,200	FY 28
2016 Issuance									
ADC Kingman Refinance		100,585,000		100,585,000		17,463,300		17,463,300	FY 25
<i>Subtotal - ADDA</i>	\$	1,076,933,500	\$	1,048,568,500	\$	138,977,200	\$	128,147,700	
<u>School Facilities Board</u>									
New School Construction - FY 2008 - FY 2009	\$	43,735,000	\$	43,735,000	\$	44,925,400	\$	44,925,400	FY 19
Federal Bonds		50,288,800		50,288,800		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		13,530,000		13,530,000		9,260,900		9,260,900	FY 20
2014 Refinance		55,605,000		55,605,000		91,721,800		91,721,800	FY 20
2015 Refinance		257,835,000		257,835,000		11,465,800		11,465,800	FY 24
<i>Subtotal - SFB</i>	\$	479,778,800	\$	479,778,800	\$	169,761,700	\$	169,761,700	
<u>ABOR Building System</u>									
Arizona State University	\$	288,374,500	\$	138,495,000	\$	31,580,300	\$	13,481,100	FY 39
Northern Arizona University		49,550,000		49,550,000		5,896,500		5,896,500	FY 31
University of Arizona		286,551,000		136,995,000		45,839,000		14,249,000	FY 72
<i>Subtotal - ABOR</i>	\$	624,475,500	\$	325,040,000	\$	83,315,800	\$	33,626,600	
Phoenix Convention Center 4/5/	\$	258,640,300	\$	260,124,300	\$	22,499,000	\$	22,499,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$	2,439,828,100	\$	2,113,511,600	\$	414,553,700	\$	354,035,000	
Bonding Summary									
<u>School Facilities Board</u>									
Deficiencies Correction:									
Proposition 301	\$	124,640,000	\$	-	\$	64,133,500	\$	-	FY 20
State Land Trust - FY 2004		-		-		24,908,000		-	FY 18
<i>Subtotal - SFB</i>	\$	124,640,000	\$	-	\$	89,041,500	\$	-	
Department of Transportation 6/	\$	1,637,937,000	\$	-	\$	177,698,000 7/	\$	-	FY 14 - 38
<u>ABOR Building System</u>									
Arizona State University	\$	1,219,975,000	\$	-	\$	89,502,400	\$	-	FY 48
Northern Arizona University		302,115,000		-		25,454,500		-	FY 44
University of Arizona		688,550,000		-		56,984,000		-	FY 48
University Lottery Bond (SPEED)		615,075,000 8/		-		49,903,900		-	FY 48
University Infrastructure (2017) 9/		-		-		-		-	FY 43
<i>Subtotal - ABOR</i>	\$	2,825,715,000	\$	-	\$	221,844,800	\$	-	
Lottery Revenue Bond	\$	312,585,000	\$	-	\$	37,500,800	\$	-	FY 29
<i>TOTAL - Bonding</i>	\$	4,900,877,000	\$	-	\$	526,085,100	\$	-	
TOTAL - Lease-Purchase & Bonding	\$	7,340,705,100	\$	2,113,511,600	\$	940,638,800	\$	354,035,000	

- 1/ Represents principal balances as of June 30, 2018. 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 18 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 prior federal budget reductions, in FY 2018 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 \$1,408,522,000 for Highway User Revenue Fund bonds and \$229,415,000 for Grant Anticipation Notes.
- 7/ Future debt service schedule is: FY 2019 - \$182,200,000; FY 2020 - \$190,906,000; FY 2021 - \$200,450,000.
- 8/ Represents outstanding balance as of the end of FY 2018 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.)*
- 9/ The displayed amounts exclude the impact of the statutory appropriation for university infrastructure financing of \$27,000,000 from the General Fund beginning in FY 2019. Appropriations for FY 2020 - FY 2043 are adjusted each year by 2% or the rate of inflation, whichever is less.

SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2018 Appropriations Report			
	General Fund	Other Fund	Non-Approp	Total
<u>BUDGET UNITS</u>				
Acupuncture Board of Examiners				
1400 W Washington	0	4,600	0	4,600
Administration, AZ Department of				
1510 W Adams	0	353,600	0	353,600
1520 W Adams	0	195,000	0	195,000
1537 W Jackson	0	86,000	0	86,000
1616 W Adams	0	77,300	0	77,300
1802 W Jackson	0	17,500	43,600	61,100
1840 W Jackson	0	64,500	0	64,500
1850 W Jackson	0	44,500	0	44,500
1400 W Washington	3,400	46,100	0	49,500
1700 W Washington	34,100	82,200	0	116,300
1501 W Madison	0	41,900	0	41,900
1801 W Madison	0	21,200	0	21,200
1805 W Madison	0	24,700	0	24,700
400 W Congress, Tucson	0	47,600	0	47,600
402 W Congress, Tucson	0	56,200	0	56,200
416 W Congress, Tucson	0	2,700	0	2,700
Subtotal - AZ Dept of Administration	\$37,500	\$1,161,000	\$43,600	\$1,242,100
Administrative Hearings, Office of				
1400 W Washington	71,400	900	132,200	204,500
400 W Congress, Tucson	0	11,400	0	11,400
Subtotal - Office of Administrative Hearings	\$71,400	\$12,300	\$132,200	\$215,900
African American Affairs, AZ Commission of				
1700 W Washington	5,900	0	0	5,900
Agriculture, AZ Department of				
1520 W Adams	107,400	0	0	107,400
1688 W Adams	197,700	46,300	222,700	466,700
400 W Congress, Tucson	32,100	3,900	4,700	40,700
Subtotal - AZ Dept of Agriculture	\$337,200	\$50,200	\$227,400	\$614,800
AZ Health Care Cost Containment System				
Kingman Building	6,800	0	6,600	13,400
Arts, AZ Commission on the				
417 W Roosevelt	0	0	49,700	49,700
Attorney General - Department of Law				
1275 W Washington	550,100	315,400	320,100	1,185,600
400 W Congress, Tucson	31,300	24,500	18,300	74,100
402 W Congress, Tucson	137,700	107,900	79,900	325,500
416 W Congress, Tucson	0	0	114,900	114,900
Capitol Center	991,900	348,500	0	1,340,400
Subtotal - Attorney General - Dept of Law	\$1,711,000	\$796,300	\$533,200	\$3,040,500
Automobile Theft Authority				
1400 W Washington	0	34,700	0	34,700
Barbers, Board of				
1400 W Washington	0	12,500	0	12,500
Charter Schools, State Board for				
1616 W Adams	70,500	0	0	70,500
Child Safety, Department of				
1400 W Washington	0	0	42,300	42,300
Kingman Building	18,800	38,500	25,900	83,200
400 W Congress, Tucson	21,400	20,000	9,500	50,900
Capitol Center	115,100	32,000	66,100	213,200
Subtotal - Department of Child Safety	\$155,300	\$90,500	\$143,800	\$389,600

Fiscal Year 2018 Appropriations Report

	General Fund	Other Fund	Non-Approp	Total
Citizens Clean Elections Commission				
1616 W Adams	0	0	54,300	54,300
Contractors, Registrar of				
400 W Congress, Tucson	0	38,000	0	38,000
1700 W Washington	0	288,000	0	288,000
Subtotal - Registrar of Contractors	\$0	\$326,000	\$0	\$326,000
Corporation Commission				
1200 W Washington	0	528,200	0	528,200
1300 W Washington	0	704,900	0	704,900
400 W Congress, Tucson	5,500	47,900	3,100	56,500
Subtotal - Corporation Commission	\$5,500	\$1,281,000	\$3,100	\$1,289,600
Corrections, State Department of				
1601 W Jefferson	749,900	0	0	749,900
1645 W Jefferson	668,500	0	0	668,500
1831 W Jefferson	266,200	0	0	266,200
Subtotal - State Dept of Corrections	\$1,684,600	\$0	\$0	\$1,684,600
Deaf and the Hard of Hearing, Commission for the				
1400 W Washington	0	8,400	0	8,400
Economic Security, Department of				
1400 W Washington	0	0	57,200	57,200
1624 W Adams	64,100	29,200	23,400	116,700
1700 W Washington	10,400	4,800	3,800	19,000
1789 W Jefferson (DES West)	1,441,200	359,100	476,400	2,276,700
Kingman Building	31,900	65,500	44,000	141,400
400 W Congress, Tucson	190,600	179,600	86,400	456,600
DES Group Homes	139,200	200,100	0	339,300
Capitol Center	80,600	22,400	46,300	149,300
Subtotal - Department of Economic Security	\$1,958,000	\$860,700	\$737,500	\$3,556,200
Education, Department of				
1535 W Jefferson	300,800	102,900	560,100	963,800
400 W Congress, Tucson	0	12,000	42,600	54,600
416 W Congress, Tucson	0	900	21,400	22,300
Subtotal - Department of Education	\$300,800	\$115,800	\$624,100	\$1,040,700
Education, State Board of				
1535 W Jefferson	32,200	0	0	32,200
1700 W Washington	54,200	0	0	54,200
Subtotal - State Board of Education	\$86,400	\$0	\$0	\$86,400
Emergency and Military Affairs, Department of				
400 W Congress St	0	0	9,000	9,000
Environmental Quality, Department of				
400 W Congress, Tucson	0	96,700	0	96,700
416 W Congress, Tucson	0	0	5,300	5,300
Subtotal - Environmental Quality, Dept. of	\$0	\$96,700	\$5,300	\$102,000
Equalization, State Board of				
400 W Congress, Tucson	19,800	0	0	19,800
Executive Clemency, Board of				
1645 W Jefferson	86,200	0	0	86,200
Financial Institutions, Department of				
2910 N 44th Street	166,000	32,400	0	198,400
Funeral Directors & Embalmers, State Board of				
1400 W Washington	0	15,000	0	15,000
Gaming, Department of				
400 W Congress, Tucson	0	14,000	0	14,000
Governor, Office of the				
1700 W Washington	564,700	0	63,300	628,000
1700 W Washington (Office of Highway Safety)	0	0	69,600	69,600
400 W Congress, Tucson	30,000	0	0	30,000

Fiscal Year 2018 Appropriations Report

	General Fund	Other Fund	Non-Approp	Total
Subtotal - Office of the Governor	\$594,700	\$0	\$132,900	\$727,600
Gov's Ofc of Strategic Planning & Budgeting				
1700 W Washington	130,600	0	0	130,600
Health Services, Department of				
1740 W Adams	0	1,013,400	0	1,013,400
1818 W Adams	209,600	0	0	209,600
400 W Congress, Tucson	84,100	50,300	0	134,400
402 W Congress, Tucson	0	3,300	0	3,300
416 W Congress, Tucson	0	57,300	0	57,300
Subtotal - Department of Health Services	\$293,700	\$1,124,300	\$0	\$1,418,000
Homeland Security, AZ Dept of				
1700 W Washington	0	0	133,100	133,100
Homeopathic & Integrated Medicine Examiners, Board of				
1400 W Washington	0	5,000	0	5,000
Insurance, Department of				
2910 N 44th Street	323,300	0	107,800	431,100
Judiciary - Court of Appeals				
400 W Congress, Tucson	380,700	0	0	380,700
Judiciary - Supreme Court				
1501 W Washington	2,859,700	0	0	2,859,700
400 W Congress, Tucson	83,800	0	0	83,800
Subtotal - Supreme Court	\$2,943,500	\$0	\$0	\$2,943,500
Subtotal - Judiciary	\$3,324,200	\$0	\$0	\$3,324,200
Juvenile Corrections, Department of				
1624 W Adams	364,700	0	0	364,700
Land Department, State				
1616 W Adams	0	779,700	0	779,700
Legislature - Auditor General				
2910 N 44th Street	375,600	0	0	375,600
Liquor Licenses and Control, Department of				
400 W Congress, Tucson	0	21,700	0	21,700
Massage Therapy, Board of				
1400 W Washington	0	28,400	0	28,400
Medical Board, AZ				
9500 Doubletree Rd.	0	200,000	0	200,000
Mine Inspector, State				
1700 W Washington	75,100	0	0	75,100
Naturopathic Physicians Medical Board				
1400 W Washington	0	8,000	0	8,000
Navigable Stream Adjudication Commission, AZ				
1700 W Washington	10,000	0	0	10,000
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.				
1400 W Washington	0	23,000	0	23,000
Opticians, State Board of Dispensing				
1400 W Washington	0	5,200	0	5,200
Optometry, State Board of				
1400 W Washington	0	9,000	0	9,000
Osteopathic Examiners in Medicine and Surgery, AZ Board of				
9500 Doubletree Rd.	0	34,200	0	34,200
Personnel Board				
1400 W Washington	0	24,700	0	24,700
Pharmacy, AZ State Board of				
1616 W Adams	0	117,800	0	117,800
Podiatry Examiners, State Board of				
1400 W Washington	0	4,400	0	4,400
Private Postsecondary Education, State Board for				

Fiscal Year 2018 Appropriations Report

	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	13,600	3,300	16,900
Psychologist Examiners, State Board of				
1400 W Washington	0	20,500	0	20,500
Public Safety, Department of				
14 N 18th Avenue	20,100	5,300	5,600	31,000
1700 W Washington	50,600	13,200	13,900	77,700
400 W Congress, Tucson	10,900	2,800	2,900	16,600
Subtotal - Department of Public Safety	\$81,600	\$21,300	\$22,400	\$125,300
Real Estate Department, State				
2910 N 44th Street	202,500	0	0	202,500
Respiratory Care Examiners, Board of				
1400 W Washington	0	19,800	0	19,800
Revenue, Department of				
402 W Congress, Tucson	116,900	59,500	0	176,400
1600 W Monroe	1,501,000	773,100	0	2,274,100
Subtotal - Department of Revenue	\$1,617,900	\$832,600	\$0	\$2,450,500
Rio Nuevo Board				
400 W Congress, Tucson	0	0	11,200	11,200
School Facilities Board				
1700 W Washington	77,100	0	31,600	108,700
Secretary of State - Dept of State				
1700 W Washington	318,600	0	0	318,600
400 W Congress, Tucson	6,000	0	0	6,000
Records Management Addition	303,300	0	0	303,300
Polly Rosenbaum Building	1,592,900	0	0	1,592,900
Subtotal - Secretary of State - Dept of State	\$2,220,800	\$0	\$0	\$2,220,800
Transportation, Department of				
1275 W Washington <u>3/</u>	0	127,800	0	127,800
Treasurer, State				
1700 W Washington	0	135,800	0	135,800
Tribal Relations, Governor's Office on				
1700 W Washington	13,200	0	0	13,200
Veterinary Medical Examining Board, AZ State				
9500 Doubletree Rd.	0	25,300	0	25,300
Water Resources, Department of				
1802 W Jackson	24,900	0	0	24,900
GRAND TOTAL	\$16,432,800	\$8,494,200	\$3,012,100	\$27,939,100

- 1/ Reflects the FY 2017 rental rates enacted by Laws 2016, Chapter 127, Section 6, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.
- 2/ Pursuant to A.R.S. § 41-792.01, agencies occupying state-owned buildings shall pay the higher of the amount reported [herein] by the Joint Legislative Budget Committee or the pro rata share based on actual occupancy.
- 3/ Represents funding for space occupied by the Attorney General - Department of Law for provision of legal services to the Department of Transportation.

LEASE-PURCHASE APPROPRIATIONS 1/
Department of Administration Building System

	Fiscal Year 2018 - Appropriations Report			
	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS				
Administration, AZ Department of				
Sale/Lease-Back	\$84,115,100			\$84,115,100
Arizona Department of Administration Buildings <u>2/</u>				
Accountancy, State Board of		\$113,000		113,000
Administration, Arizona Department of	805,500	2,075,800	\$216,900	3,098,200
Deaf and the Hard of Hearing, Commission for the		216,800		216,800
Economic Opportunity, Office of <u>3/</u>	26,000	13,800	227,500	267,300
Equalization, State Board of	88,400			88,400
Tax Appeals, State Board of	34,000			34,000
Subtotal - ADOA Building	\$953,900	\$2,419,400	\$444,400	\$3,817,700
Corrections, Arizona Department of				
4,000 Public Prison Beds <u>4/</u>	15,806,400			15,806,400
Water and Wastewater Projects <u>4/</u>		645,100		645,100
1,000 Public Prison Beds - Refinance <u>5/</u>	3,071,900			3,071,900
Kingman – Refinance <u>6/</u>	17,463,300			17,463,300
Subtotal - AZ Department of Corrections	\$36,986,700			\$36,986,700
Department of Environmental Quality Building <u>2/</u>				
Criminal Justice Commission, Arizona		10,700	167,300	178,000
Environmental Quality, Department of		3,188,100		3,188,100
Forestry and Fire Management, AZ Department of	211,800		31,600	243,400
Gaming, Department of		553,300		553,300
Housing, AZ Department of	65,400	21,900	349,000	436,300
Residential Utility Consumer Office		106,600		106,600
Technical Registration, State Board of		174,100		174,100
Water Resources, Department of	757,100			757,100
Subtotal - ADEQ Building	\$1,034,300	\$4,054,700	\$547,900	\$5,636,900
Health Services, Department of				
Health Services Building - Refinance <u>7/</u>	1,994,100	1,329,800		3,323,900
Health Lab - Refinance <u>5/</u>		2,033,300		2,033,300
Arizona State Hospital Forensic Unit <u>4/</u>	3,063,600			3,063,600
Subtotal - Department of Health Services	\$5,057,700	\$3,363,100		\$8,420,800
GRAND TOTAL	\$128,147,700	\$9,837,200	\$992,300	\$138,977,200

- 1/ Pursuant to A.R.S. § 41-792.01, state agencies occupying buildings being lease-purchased by the Arizona Department of Administration (ADOA) shall pay the higher of the billed amount reported [herein] by the Joint Legislative Budget Committee Staff or the pro rata share of the lease-purchase based on actual occupancy.
- 2/ As reviewed by the JCCR in June 2015, ADOA refinanced the existing ADOA and ADEQ building PLTO to a traditional lease-purchase agreement. The ADOA and ADEQ buildings will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the ADOA and DEQ buildings through the end of the issuance in 2028.
- 3/ Laws 2016, Chapter 372 established the Governor's Office of Economic Opportunity which consists of the Office of Population and Employment Statistics and the Arizona Finance Authority which oversees the Water Infrastructure Finance Authority (WIFA) and the Greater Arizona Development Authority (GADA).
- 4/ As reviewed by the JCCR in June 2015, ADOA refinanced the existing ADC 4,000 prison bed lease-purchase agreement (2008A) and the ASH lease-purchase agreement (2008A).
- 5/ As reviewed by JCCR in October 2012, ADOA refinanced the existing ADC 1,000 prison bed lease-purchase agreement (2004B) and DHS health lab lease-purchase agreement (2002A).
- 6/ As reviewed by JCCR in June 2016, ADOA refinanced the lease-purchase agreement for the Kingman Prison.
- 7/ As reviewed by JCCR in October 2012, ADOA refinanced the existing DHS building PLTO into a traditional lease-purchase agreement. The DHS building will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in 2029.

ECONOMIC AND REVENUE FORECAST

GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted FY 2018 budget assumes total net General Fund revenues of \$9.85 billion. This amount is an increase of 0.5% compared to enacted FY 2017 General Fund revenues.

Base revenues represent ongoing General Fund revenues, exclusive of tax law and revenue changes, one-time revenue adjustments, and any balance forward from the previous fiscal year. For FY 2018, base revenues are projected to increase 4.3% when compared to forecasted FY 2017 revenues. The detailed enacted budget revenue forecasts appear at the end of this section. *Table 6* compares the enacted FY 2018 forecast to the enacted FY 2017 forecast while *Table 7* compares the FY 2020 revenue planning estimates to the FY 2019 estimates.

General Fund Base Revenue Forecast

FY 2017

The original FY 2017 budget was based on total net revenues of \$9.67 billion. This amount was (1.3)% below actual FY 2016 collections.

In the original FY 2017 budget, base revenues were projected to be \$10.16 billion in FY 2017, or 4.0% above the prior fiscal year. In January 2017, the JLBC Baseline reduced the FY 2017 base revenue forecast downward to 3.5%. The JLBC Baseline projection was based on the “4-sector” forecast (*see below for more information on the 4-sector process*). Despite the lower percentage increase, the ongoing base revenue in the January Baseline was \$7 million higher than in the May 2016 enacted budget. The reason for this is that the actual FY 2016 base revenue was higher than the estimate used in the May 2016 enacted budget.

In its 2017 Regular Session revisions to the FY 2017 budget, the Legislature adopted the January 2017 JLBC Baseline base revenue forecast of 3.5% growth. In terms of total revenue, the revised FY 2017 budgeted amount is \$9.81 billion, or 0.1% above FY 2016.

The April 4-sector forecast projected base revenue growth of 3.4% for FY 2017. As noted above, the May 2017 enacted budget for FY 2017 is based on the January 2017 4-sector forecast. *Table 1* includes the January and April 2017 4-sector estimates by major categories for FY 2017 through FY 2020.

FY 2018

The enacted FY 2018 budget forecasts total net revenues of \$9.85 billion for FY 2018. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenues are projected at \$10.47 billion. This amount is based on Executive Budget estimates and reflects a base revenue increase of 4.3% above FY 2017. In comparison, the January and April 4-sector forecasted base revenue growth of 3.9% and 4.3% above FY 2017, respectively.

Table 2 below summarizes the changing revenue picture in FY 2017 to FY 2020 through the phases of budget development. The growth rates in the table reflect ongoing base revenues.

Long-Term Projections

The FY 2018 budget also incorporated revenue planning estimates for FY 2019 and FY 2020, which are shown in *Table 7*. The base revenue growth rates in the FY 2019 and FY 2020 revenue planning estimates are based on the Executive Budget revenue forecast. Under the Executive's estimates, base revenue would increase by 4.1% in FY 2019 and 4.5% in FY 2020.

In comparison, the January and April 4-sector forecasted base revenue growth of 4.2% and 3.5% in FY 2019 and 4.8% and 4.4% in FY 2020, respectively. The January 2017 and April 2017 4-sector consensus estimates for FY 2019 and FY 2020 are shown in *Table 1*.

4-Sector Forecast

The JLBC's estimated growth rates for the “Big 4” revenue categories of sales, individual income, corporate income and insurance premium 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. 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.

Table 1

**4-Sector Estimates
Forecast Percentages (FY 2017 - FY 2020)
Base Revenue ^{1/2/}**

	FY 2017					FY 2018				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>Sales Tax</u>										
January	4.1%	3.2%	4.1%	4.0%	3.9%	4.0%	2.0%	5.0%	4.1%	3.8%
April	3.9%	3.3%	3.5%	4.0%	3.7%	3.9%	2.3%	4.6%	4.1%	3.7%
<u>Individual Income Tax</u>										
January	5.1%	3.9%	4.8%	4.0%	4.5%	4.9%	3.7%	6.1%	5.8%	5.1%
April	4.8%	4.5%	5.0%	5.1%	4.9%	5.0%	4.7%	6.5%	6.0%	5.5%
<u>Corporate Income Tax</u>										
January	(14.1%)	(5.8%)	(2.0%)	(7.0%)	(7.2%)	1.9%	(12.1%)	(3.3%)	4.7%	(2.4%)
April	(18.6%)	(8.0%)	(5.5%)	(17.2%)	(12.3%)	2.5%	(4.7%)	6.2%	3.6%	1.9%
<u>Insurance Premium Tax</u>										
January	6.4%	7.4%	7.4%	6.4%	6.9%	5.5%	3.2%	3.2%	4.5%	4.1%
April	8.7%	8.5%	8.5%	8.0%	8.4%	6.0%	4.1%	4.1%	4.5%	4.7%
<u>Overall ^{3/}</u>										
January	3.5%	3.1%	4.1%	3.4%	3.5%	4.2%	2.1%	4.8%	4.7%	3.9%
April	3.1%	3.3%	3.8%	3.4%	3.4%	4.3%	3.0%	5.2%	4.7%	4.3%
	FY 2019					FY 2020				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>Sales Tax</u>										
January	3.9%	3.7%	5.6%	4.1%	4.3%	4.0%	5.6%	5.3%	4.0%	4.7%
April	3.9%	0.6%	5.7%	4.1%	3.6%	3.9%	4.9%	5.6%	4.0%	4.6%
<u>Individual Income Tax</u>										
January	4.7%	3.9%	5.6%	4.9%	4.8%	4.8%	5.9%	5.5%	4.9%	5.3%
April	4.6%	1.7%	4.9%	4.9%	4.0%	4.6%	4.6%	5.5%	4.8%	4.9%
<u>Corporate Income Tax</u>										
January	3.8%	(17.7%)	(6.3%)	3.1%	(3.9%)	2.0%	13.5%	(3.4%)	(0.1%)	2.0%
April	3.6%	(12.6%)	(5.4%)	3.1%	(3.2%)	0.7%	(5.6%)	(5.5%)	1.1%	(2.4%)
<u>Insurance Premium Tax</u>										
January	4.9%	2.6%	2.4%	5.1%	3.8%	5.2%	2.0%	2.4%	4.7%	3.6%
April	4.4%	2.2%	1.9%	4.8%	3.3%	4.2%	1.8%	2.0%	4.3%	3.1%
<u>Overall ^{3/}</u>										
January	4.3%	3.1%	4.9%	4.4%	4.2%	4.3%	5.6%	4.9%	4.2%	4.8%
April	4.2%	0.9%	4.6%	4.4%	3.5%	4.1%	4.3%	4.9%	4.2%	4.4%

^{1/} Prior to any tax law or other revenue changes.

^{2/} The enacted FY 2018 budget utilized January 4-Sector base revenue estimates for FY 2017 and Executive Budget estimates for FY 2018 - FY 2020.

^{3/} The growth rates for each sector represent the weighted average of Big-4 revenue estimates plus JLBC Staff estimates of other base revenue categories.

The estimates for the remaining revenue categories, which constitute about 5% of the total, were based on JLBC Staff projections.

	<u>% Change</u>
FY 2017	
Enacted FY 2017 Budget (May 2016)	4.0%
4-Sector Consensus (January 2017)	3.5%
4-Sector Consensus (April 2017)	3.4%
Enacted FY 2018 Budget (May 2017) ^{1/}	3.5%
FY 2018	
4-Sector Consensus (January 2017)	3.9%
4-Sector Consensus (April 2017)	4.3%
Enacted FY 2018 Budget (May 2017) ^{1/}	4.3%
FY 2019	
4-Sector Consensus (January 2017)	4.2%
4-Sector Consensus (April 2017)	3.5%
Enacted FY 2018 Budget (May 2017) ^{1/}	4.1%
FY 2020	
4-Sector Consensus (January 2017)	4.8%
4-Sector Consensus (April 2017)	4.4%
Enacted FY 2018 Budget (May 2017) ^{1/}	4.5%
^{1/} Base revenue estimates under the enacted FY 2018 Budget reflect January 2017 Baseline estimates for FY 2017 and Executive Budget estimates for FY 2018 through FY 2020.	

Revenue Adjustments

Table 3 provides an overview of base revenue growth rates for FY 2017 and FY 2018 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in Table 4) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on the enacted FY 2018 budget.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that affect the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of Table 3, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by \$(127.4) million in FY 2017. As noted above, the FY 2017 base revenue growth of 3.5% excludes these changes. The enacted budget assumes a base revenue growth rate of 4.3% in FY 2018. Actual General Fund revenue, which includes the impact of previously and newly enacted legislation, urban revenue sharing and

one-time financing sources is estimated to increase by 0.5% in FY 2018. The following section provides a detailed description of previously and newly enacted legislation with an ongoing revenue impact in FY 2017 through FY 2020. (See Table 4 for a complete list of each of the tax law and revenue changes affecting collections in FY 2017 through FY 2020.)

	<u>FY 2017</u>	<u>%</u>	<u>FY 2018</u>	<u>%</u>
Base Revenue	\$10,040.6 ^{1/}	3.5%	\$10,471.4	4.3%
Previously Enacted Tax Law Changes	N/A		(107.2)	
Newly Enacted Tax Law Changes	N/A		(10.0)	
Urban Revenue Sharing	(663.6)		(680.8)	
One-Time Financing Sources:				
Balance Forward	284.0		171.0	
Fund Transfers	<u>144.4</u>		<u>8.2</u>	
Subtotal	428.4		179.2	
Adjusted Revenue	<u>\$9,805.4</u>	0.1%	<u>\$9,852.6</u>	0.5%
^{1/} \$(127.4) million in previously enacted tax law changes are included in the FY 2017 base revenue amount. The FY 2017 increase of 3.5% shown above excludes these changes.				

As shown in Table 4, ongoing budget legislation enacted prior to the 2017 Regular Session is estimated to reduce General Fund revenue by \$(127.4) million in FY 2017, followed by an additional reduction of \$(107.2) million in FY 2018, \$(69.4) million in FY 2019, and \$(31.0) million in FY 2020. All revenue impacts in Table 4 are stated relative to the prior year.

Newly enacted ongoing legislation in 2017 is estimated to reduce General Fund revenue by \$(10.0) million in FY 2018, followed by an additional reduction of \$(9.6) million in FY 2019, and \$(4.6) million in FY 2020. As shown in Table 4, this means that the total combined ongoing revenue impact of all (previously and newly) enacted legislation is \$(117.2) million in FY 2018, followed by additional revenue reductions of \$(79.0) million in FY 2019, and \$(35.6) million in FY 2020.

Each of the previously and recently enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in Table 5.

Previously (Pre-2017) Enacted Legislation

1) Corporate School Tuition Tax Credit – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14 established a cap on this credit of \$5 million per year. Laws 2006, Chapter 325 increased the credit cap to \$10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap in each year between FY 2013 and FY 2017, and are currently projected to reach the cap of \$74.3 million in FY 2018, \$89.2 million in FY 2019, and \$107.0 million in FY 2020. Thus, this credit program is estimated to reduce corporate income and insurance premium tax collections by \$(10.3) million in FY 2017, followed by additional reductions of \$(12.4) million in FY 2018, \$(14.9) million in FY 2019, and \$(17.8) million in FY 2020.

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 \$(47.0) million in FY 2017, followed by additional reductions of \$(43.5) million in FY 2018, and \$(32.1) 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 \$(22.3) million in FY 2017, followed by additional reductions of \$(18.7) million in FY 2018, and \$(11.6) million in FY 2019.

4) Job Tax Credit – Laws 2011, 2nd Special Session, Chapter 1 provides a \$3,000 annual insurance premium, 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 \$(3.1) million in FY 2017. (Laws 2017, Chapter 340 made further changes to the job tax credit, as described under item 28.)

5) Qualified Facility Tax Credit – Laws 2012, Chapter 343 created a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state, beginning in TY 2013. The credit is 10% of the lesser of (1) the capital investment in the facility or (2) \$200,000 for each net new employee hired at the facility. To qualify for the credit, a company is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facility. Laws 2016, Chapter 372 modified the credit by reducing some of the minimum requirements for new employees and extended the credit program by 3 years, from TY 2019 to TY 2022. Laws 2017, Chapter 340 added language clarifying that any credit pre-approved prior to TY 2023 can be claimed in 5 annual installments notwithstanding any intervening repeal or termination of the credit. 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 credit is estimated to reduce revenue by \$(4.0) million in FY 2017, followed by additional revenue reductions of \$(4.0) million in FY 2018, and \$(2.8) million in FY 2019.

6) 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, followed by an additional reduction of \$(8.5) million in FY 2020.

7) 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 \$(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.

8) 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.

9) Tax Fraud Prevention and Detection – The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) 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 save the General Fund \$6.0 million in individual income tax revenue in FY 2017.

10) Ongoing Judiciary Transfers – The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) contained specific transfers to be made during FY 2016. The enacted FY 2016 budget’s 3-year plan assumed the ongoing continuation of \$6.0 million in fund transfers from various Superior Court and Supreme Court funds to the General Fund, beginning in FY 2016.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorizes total transfers of \$5.0 million and \$3.0 million in FY 2017 and FY 2018, respectively, from various Judiciary funds to the General Fund.

As noted above, the FY 2016 budget’s 3-year plan assumed Judiciary fund transfers to the General Fund of \$6.0 million in FY 2016, FY 2017 and FY 2018. Thus, compared to the previously budgeted amount of \$6.0 million, Chapter 117 constitutes a fund transfer reduction of \$(1.0) million in FY 2017 and \$(3.0) million in FY 2018. In terms of the impact relative to the prior year, Chapter

117 results in General Fund reduction of \$(1.0) million in FY 2017 followed by an additional reduction of \$(2.0) million beginning in FY 2018. (Laws 2017, Chapter 305 provides a further reduction of the Judiciary fund transfers of \$(400,000) annually, beginning in FY 2018. This change is described under item 25.)

11) Phase-Down of Insurance Premium Tax Rate – Laws 2015, Chapter 220 provided a gradual reduction of the insurance premium tax rate from 2.0% in Calendar Year (CY) 2015 to 1.7% in CY 2026 and subsequent years. Laws 2016, Chapter 358 replaced the rate schedule under Laws 2015, Chapter 220 with an accelerated schedule that gradually reduces the premium tax rate to 1.7% in CY 2021, or 5 years earlier than previously enacted. The phase-down of the premium tax rate to 1.7% is estimated to decrease insurance premium tax collections to the General Fund by \$(4.3) million in FY 2017, followed by further decreases of \$(4.1) million in FY 2018, \$(4.3) million in FY 2019, and \$(4.7) million in FY 2020.

12) Changes to Charitable Tax Credit Cap – Laws 2016, Chapter 109 increased the maximum amount that an individual income taxpayer is allowed to claim for cash contributions to qualifying charitable organizations (QCO) and qualifying foster care charitable organizations (QFCO). Chapter 109 increases the maximum QCO credit from \$400 to \$800 for married couples filing joint returns and from \$200 to \$400 for all other filers. The maximum amount for the QFCO credit is increased from \$800 to \$1,000 for married couples filing joint returns and from \$400 to \$500 for all other filers. Additionally, Chapter 109 allows a taxpayer to receive separate credits for cash contributions to a QCO and a QFCO. Prior to Chapter 109, the maximum amount for both credits combined were \$800 for married couples filing joint returns and \$400 for all other filers. Chapter 109 is estimated to reduce individual income tax revenue by \$(11.0) million annually, beginning in FY 2017.

Laws 2016, Chapter 309 provided further changes to the charitable tax credit by extending the due date for making cash contributions to qualifying charitable organizations from December 31 to April 15 of the following calendar year. For purposes of claiming the credit, contributions made after December 31 and on or before April 15 can be applied to either the current or preceding taxable year. This provision is estimated to reduce General Fund revenue by \$(1.7) million annually, beginning in FY 2017.

The combined impact of the provisions under Chapters 109 and 309 is an estimated revenue reduction of \$(12.7) million annually, beginning in FY 2017.

Table 4

**Previously and Newly Enacted Budget Legislation with Ongoing Revenue Impact in FY 2017 through FY 2020
(\$ Millions) ^{1/2/}**

<u>Previously Enacted Legislation / Description of Provision</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
<u>Laws 2006, Ch. 14 & Ch. 325</u>				
1) Corporate school tuition credit for low-income students	\$(10.3)	\$(12.4)	\$(14.9)	\$(17.8)
<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 TY 2014	(47.0)	(43.5)	(32.1)	0.0
3) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in TY 2014	(22.3)	(18.7)	(11.6)	0.0
4) Creates annual \$3,000 3-year new job tax credit with conditions ^{3/}	(3.1)	0.0	0.0	0.0
<u>Laws 2012, Ch. 343</u>				
5) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities ^{4/}	(4.0)	(4.0)	(2.8)	0.0
6) Extends the Net Operating Loss (NOL) carry forward from 5 years to 20 years	0.0	0.0	(3.7)	(8.5)
<u>Laws 2014, Ch. 8</u>				
7) Creates a tax credit for investment in new facilities that produce energy for self-consumption using renewable energy sources	(7.0)	0.0	0.0	0.0
<u>Laws 2015, Ch. 6</u>				
8) Exempts electricity and natural gas purchased by International Operations Centers from TPT	(1.3)	0.0	0.0	0.0
<u>Laws 2015, Ch. 8</u>				
9) Fraud detection and prevention conducted by the Department of Revenue	6.0	0.0	0.0	0.0
<u>Laws 2015, Ch. 8 & Laws 2016, Ch. 117</u>				
10) Provides ongoing Judiciary fund transfers to General Fund ^{5/}	(1.0)	(2.0)	0.0	0.0
<u>Laws 2015, Ch. 220 & Laws 2016, Ch. 358</u>				
11) Phases down insurance premium tax rate from 2.0% to 1.7% over 6 years, beginning in FY 2017	(4.3)	(4.1)	(4.3)	(4.7)
<u>Laws 2016, Ch. 109 & Laws 2016, Ch. 309</u>				
12) Increases the maximum amount claimed as a tax credit for contributions to charitable organizations and extends the credit filing due date to April 15.	(12.7)	0.0	0.0	0.0
<u>Laws 2016, Ch. 118</u>				
13) Increases state income tax deduction from 10% to 100% of federal bonus depreciation over 2 years, beginning in FY 2017	(8.0)	(8.0)	0.0	0.0
<u>Laws 2016, Ch. 192</u>				
14) Diverts certification fees from General Fund to ADEQ	(0.4)	0.0	0.0	0.0
<u>Laws 2016, Ch. 221</u>				
15) Eliminates pest management fee deposit to General Fund	(0.2)	0.0	0.0	0.0

<u>Previously Enacted Legislation / Description of Provision (Cont'd)</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
<u>Laws 2016, Ch. 357</u>				
16) Exempts natural gas transportation services provided to manufacturing and smelting facilities from TPT	\$(0.9)	\$0.0	\$0.0	\$0.0
<u>Laws 2016, Ch. 361</u>				
17) Exempts agricultural feed for use in noncommercial boarding of livestock from TPT	(1.0)	0.0	0.0	0.0
<u>Laws 2016, Ch. 367</u>				
18) Exempts aircraft and aircraft equipment operated by charter airlines from TPT	0.0	(2.3)	0.0	0.0
<u>Laws 2016, Ch. 368</u>				
19) Exempts sale of fine art to nonresidents for use outside the state from TPT	(1.3)	0.0	0.0	0.0
<u>Laws 2016, Ch. 374</u>				
20) Modifies existing TPT exemption for electricity and natural gas purchased by manufacturing and smelting facilities ^{6/}	<u>(8.7)</u>	<u>(12.2)</u>	<u>0.0</u>	<u>0.0</u>
<u>Subtotal – Revenue Impact over Prior Year for Previously Enacted Budget Legislation</u>	<u>\$(127.4)</u>	<u>\$(107.2)</u>	<u>\$(69.4)</u>	<u>\$(31.0)</u>
<u>Newly Enacted Legislation / Description of Provision</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
<u>Laws 2017, Ch. 43</u>				
21) Diverts NEMF assessment from General Fund	0.0	(2.5)	0.0	0.0
<u>Laws 2017, Ch. 278</u>				
22) Provides income tax subtraction for ADA retrofits	0.0	0.0	(1.3)	0.0
<u>Laws 2017, Ch. 281</u>				
23) Decreases Captive Insurance Fund transfer to General Fund	0.0	(0.1)	0.0	0.0
<u>Laws 2017, Ch. 299</u>				
24) Inflation-indexing of personal exemption amounts	0.0	(6.8)	(6.7)	(2.9)
<u>Laws 2017, Ch. 305</u>				
25) Reduces ongoing Judiciary transfers ^{7/}	0.0	(0.4)	0.0	0.0
<u>Laws 2017, Ch. 319</u>				
26) Adds a total of \$10 million in new angel investment credits	0.0	(0.8)	(0.8)	(0.8)
<u>Laws 2017, Ch. 334</u>				
27) Diverts real estate appraisal fee to General Fund	0.0	0.7	0.0	0.0
<u>Laws 2017, Ch. 340</u>				
28) Modifies eligibility requirements for job tax credit and extends credit through FY 2025 ^{3/}	0.0	0.0	(0.8)	(0.9)
29) Extends current R&D credit rate through TY 2021	0.0	0.0	0.0	0.0
30) Expands accelerated depreciation to include Class 6 personal property located in foreign trade and military reuse zones	0.0	0.0	<u>8/</u>	<u>8/</u>
31) Makes several changes to the public infrastructure state TPT diversion program to cities and counties	0.0	0.0	0.0	0.0

<u>Newly Enacted Legislation / Description of Provision (Cont'd)</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
32) Exempts aircraft under a fractional ownership program from TPT	\$0.0	9/	9/	9/
Subtotal – Revenue Impact over Prior Year for <u>Newly Enacted Budget Legislation</u>	\$0.0	\$(10.0)	\$(9.6)	\$(4.6)
Total – Revenue Impact over Prior Year for All (Previously and Newly) Enacted Budget Legislation	\$(127.4)	\$(117.2)	\$(79.0)	\$(35.6)
<p>1/ Represents marginal pricing: All revenue impacts are stated relative to the prior year.</p> <p>2/ Some provisions have been revised since the enactment of the FY 2017 budget in May 2016.</p> <p>3/ Includes impact of Laws 2012, Chapter 343, which eliminated individual company cap of 400 eligible employees. In addition, Laws 2012, Chapter 343 provided that the credit be available to insurers through TY 2019. The TY 2019 deadline for insurers to claim the credit was subsequently eliminated by Laws 2016, Chapter 360. The imposition and subsequent removal of the TY 2019 deadline is not expected to have any fiscal impact. Laws 2017, Chapter 340 extends the credit from FY 2017 through FY 2025 and modifies the minimum investment and wage requirements. The fiscal impact of the changes under Chapter 340 is listed under item 28).</p> <p>4/ Impact began in FY 2014.</p> <p>5/ Subsequently modified by Laws 2017, Chapter 305 (item 25).</p> <p>6/ The requirements to qualify for the TPT exemption created by Laws 2014, Chapter 7 were modified by Laws 2016, Chapter 374.</p> <p>7/ The amount of Judiciary fund transfers authorized by Laws 2016, Chapter 117 was reduced by Laws 2017, Chapter 305.</p> <p>8/ Since the state does not levy a property tax, this provision has no revenue impact. Instead, the provision increases the General Fund cost for the K-12 school funding formula by \$600,000, beginning in FY 2019.</p> <p>9/ The fiscal impact of this provision is currently unknown.</p>				

13) Phase-in of Full Conformity to Federal Bonus Depreciation – Laws 2012, Chapter 343 provided an individual income tax deduction equal to 10% of the bonus depreciation allowance claimed on federal returns for qualified property purchased and placed in service in 2013 and later. Laws 2016, Chapter 118 increased the state income tax deduction to 55% of the federal bonus depreciation allowance in TY 2016 and 100% in TY 2017 and subsequent years. Current federal law provides a bonus depreciation allowance of 50% in TY 2017, 40% in TY 2018, and 30% in TY 2019. This means that under the current federal bonus depreciation schedule, the state individual income tax deduction is 50% (100% of 50% federal allowance) of the qualified investment amount in TY 2017, 40% (100% of 40% federal allowance) in TY 2018, and 30% (100% of 30% federal allowance) in TY 2019. The 2-year phase-in of full state conformity to federal bonus depreciation is estimated to reduce individual income tax by \$(8.0) million in FY 2017, followed by an additional reduction of \$(8.0) million in FY 2018.

14) Fee Shift to ADEQ – Laws 2016, Chapter 192 provides that fees collected for wastewater and drinking water operator certification be deposited in the Arizona Department of Environmental Quality's (ADEQ) Water Quality Fee Fund instead of the General Fund. The provision is estimated to decrease General Fund revenue by \$(357,000) annually, beginning in FY 2017.

15) Elimination of Pest Management Fee Deposit – Laws 2016, Chapter 221 established the Division of Pest

Management within the Arizona Department of Agriculture (ADA) on July 1, 2016. Moreover, Chapter 221 established the Pest Management Trust Fund for the exclusive purpose of supporting the Division of Pest Management and repealed statute establishing the Office of Pest Management as a self-sustaining 90/10 agency. Therefore, Chapter 221 effectively eliminated the deposit of pest management fees to the General Fund. The provision is reducing General Fund revenue by \$(152,000) annually, beginning in FY 2017.

16) Gas Transportation Services TPT Exemption – Under current law (Laws 2014, Chapter 7), the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations are exempt from state TPT and use tax. Laws 2016, Chapter 357 expanded this exemption to include natural gas transportation services. Chapter 357 is estimated to reduce General Fund revenue by \$(870,000) annually, beginning in FY 2017.

17) Agricultural Feed TPT Exemption – Under current law, the sale of livestock or poultry feed to a person who is in the business of producing livestock or poultry commercially is exempt from state TPT. Laws 2016, Chapter 361 expanded this exemption to include the sale of feed to a person who boards livestock non-commercially. Chapter 361 is estimated to reduce General Fund revenue by \$(1.0) million annually, beginning in FY 2017.

18) Charter Aircraft TPT Exemption – Laws 2016, Chapter 367 exempts the sale of aircraft and aircraft equipment to charter airlines under certain conditions from state TPT

and use tax. The exemption is estimated to reduce General Fund revenue by \$(2.3) million annually, beginning in FY 2018.

19) Fine Art TPT Exemption – Laws 2016, Chapter 368 exempts the sale of fine art at an auction or gallery to a nonresident, for use outside the state, from state TPT. The exemption is estimated to reduce General Fund revenue by \$(1.3) million annually, beginning in FY 2017.

20) Modification of Existing Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2016, Chapter 374 modified the requirements to qualify for the existing TPT and use tax exemption for electricity and natural gas purchased by manufacturers and smelters. To qualify for the exemption under prior law (Laws 2014, Chapter 7), a business was required to use at least 51% of the electricity or natural gas purchased in manufacturing or smelting operations. In addition, at least 51% of the business had to be devoted to (“principally engaged in”) a manufacturing or smelting operation.

Laws 2016, Chapter 374 changed the eligibility requirements to one of the following: (1) at least 51% of the manufactured or smelted products are exported out of state, (2) at least 51% of gross income is derived from sale of manufactured or smelted products, (3) at least 51% of a business’ square footage in Arizona is used for manufacturing or smelting, (4) at least 51% of a business’ workforce in Arizona is employed in manufacturing or smelting operations, or (5) at least 51% of the value of a business’ assets in Arizona is used for manufacturing or smelting.

Chapter 374 is estimated to reduce General Fund revenue by \$(8.7) million in FY 2017, followed by an additional reduction of \$(12.2) million, beginning in FY 2018.

Newly (2017) Enacted Legislation

21) Diverting NEMF Assessment from General Fund – Under current law, the state levies an assessment on each consortium of public service corporation engaged in operating a commercial nuclear generating station. In practice, the assessment is only paid by the Palo Verde nuclear plant. The monies collected from the assessment are deposited in the General Fund. The Legislature then appropriates these monies to the Nuclear Emergency Management Fund (NEMF) for nuclear emergency response purposes.

Beginning in FY 2018, Laws 2017, Chapter 43 redirects the deposit of the nuclear generating station assessment from the General Fund to NEMF. Chapter 43 also provides that the monies for nuclear emergency response purposes be appropriated directly from NEMF. The amount of the

assessment that will be appropriated from NEMF in FY 2018 is \$2.5 million. This means that Chapter 43 has the effect of reducing General Fund revenue by \$(2.5) million, beginning in FY 2018.

22) ADA Retrofits Subtraction – Law 2017, Chapter 278 permits a business to subtract for income tax purposes the entire amount of business access expenditures incurred in the taxable year to retrofit property in order to comply with the federal Americans with Disabilities Act of 1990 (ADA). For state income tax purposes, Chapter 278 has the effect of accelerating the depreciation of such property to one year rather than expensing it over several years. The income tax subtraction, which becomes effective in TY 2018, applies to property that was originally placed in service 10 years prior to the retrofitting. Chapter 278 is estimated to reduce General Fund revenue by \$(1.3) million annually, beginning in FY 2019.

23) Reduction of Captive Insurance Fund Transfer – Laws 2017, Chapter 281 changes the year-end fund transfer from the Captive Insurance Regulatory and Supervision Fund to the General Fund from amounts exceeding \$100,000 in fund balance to amounts exceeding \$200,000. This change under Chapter 281 has the effect of reducing General Fund revenues by \$(100,000) annually, beginning in FY 2018.

24) Inflation Indexing of Personal Exemption – Laws 2017, Chapter 299 increases the personal exemption amount allowed by individual income taxpayer in TY 2017 from:

- \$2,100 to \$2,150 for single filers
- \$4,200 to \$4,300 for head of household filers
- \$4,200 to \$4,300 for married couples filing joint returns with no dependents
- \$6,300 to \$6,450 for married couples filing joint returns with at least one dependent.

For TY 2018, the personal exemption amounts are further increased to:

- \$2,200 for single filers
- \$4,400 for head of household filers
- \$4,400 for married couples filing joint returns with no dependents
- \$6,600 for married couples filing joint returns with at least one dependent.

Beginning in TY 2019, the personal exemption amounts will be adjusted for inflation annually.

In addition to the increase of the personal exemption amounts, Chapter 299 repeals several tax credits, beginning in TY 2018. Since these tax credits have either not been claimed at all or claimed in negligible amounts

to date, the elimination of the credits is not expected to have any significant revenue impact. Subject to certain requirements contained in the legislation, Chapter 299 provides that any tax credit, beginning in TY 2018, which is unclaimed for 4 consecutive years be eliminated.

The personal exemption changes are estimated to reduce individual income tax revenue by \$(6.8) million in FY 2018, followed by additional reductions of \$(6.7) million in FY 2019, and \$(2.9) million in FY 2020.

25) Reduction of Ongoing Judiciary Transfers – The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorized transfers of \$3.0 million in FY 2018, from various Judiciary funds to the General Fund.

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) modifies the FY 2018 Judiciary fund transfers included in Laws 2016, Chapter 117 by reducing the aggregate amount of the transfer by \$(400,000) annually, beginning in FY 2018. As a result, the total amount of Judiciary fund transfers to the General Fund is reduced from \$3.0 million to \$2.6 million in FY 2018.

26) Additional Angel Investor Credit Authorization – The angel investment credit is provided to ("angel") investors that make qualified investments in small businesses certified by the Arizona Commerce Authority (ACA). The credit is equal to 30% of the qualified investment unless the investment is made in a rural or bioscience company, in which case the credit is 35%. The credit must be claimed in equal installments over 3 years. The credit program's original \$20 million cap (established under Laws 2005, Chapter 316) was reached in June 2015.

Laws 2017, Chapter 319 authorizes the ACA to issue an additional \$10 million in angel investment tax credits from July 1, 2017 through June 30, 2021. Chapter 319 prohibits the ACA from authorizing more than \$2.5 million in tax credits in any fiscal year, plus any unused credit capacity carried forward from the prior year. Chapter 319 is expected to reduce individual income tax revenue by \$(0.8) million in FY 2018, followed by additional reductions of \$(0.8) million in FY 2019, and \$(0.8) million in FY 2020.

27) Deposit of Appraisal Fee into General Fund – Laws 2017, Chapter 334 eliminates the Board of Appraisal Fund and transfers those monies to the General Fund. This has the effect of increasing General Fund revenue by \$675,000, beginning in FY 2018. Chapter 334 appropriates an equal amount from the General Fund to the Department of Financial Institutions.

Laws 2017, Chapter 340 provides several changes to income, sales and property tax, as outlined below.

28) Extension and Expansion of Job Tax Credit
Laws 2011, 2nd Special Session, Chapter 1 created a 3-year \$3,000 annual insurance premium, individual and corporate income tax credit for each net new qualifying job added by an employer in the state. The Arizona Commerce Authority (ACA) is authorized to issue 1st year credits for up to 10,000 new employees (\$30 million) each year. Laws 2017, Chapter 340 extends the job tax credit (which otherwise would have expired at the end of FY 2017) through FY 2025. Moreover, Chapter 340 expands the credit by providing additional minimum investment and wage requirements, beginning in TY 2018. This provision is estimated to reduce General Fund revenue by \$(0.8) million in FY 2019, followed by an additional reduction of \$(0.9) million in FY 2020.

29) Extension of R&D Tax Credit Rate
The state's Research and Development (R&D) income tax credit is calculated as a percentage of a company's excess research expenditures. ("Excess expenditures" refer to amounts above a specified base level.) Chapter 340 extends the current credit percentages applied to excess R&D expenses from TY 2017 through TY 2021. Since this provision continues an existing credit at the same rate as that reflected in the current revenue base, it has no revenue impact relative to prior years.

30) Accelerated Depreciation for Class 6 Property
Chapter 340 expands the current accelerated depreciation provisions for personal property to include property located in a foreign trade zone or military reuse zone. Property located in such areas as assessed under Class 6, which uses a 5% assessment ratio. The property valuation loss under this provision is estimated to increase state aid funding to school districts by \$0.6 million, beginning in FY 2019. (The provision does not affect General Fund revenue.)

31) Changes to the Public Infrastructure TPT Program
Pursuant to Laws 2012, Chapter 328, the state is authorized to divert up to \$50 million in state prime contracting Transaction Privilege Tax (TPT) revenues generated from qualifying projects to a city or county to fund up to 80% of the costs of public infrastructure improvements (roads, water and wastewater facilities) needed to support the activities of a manufacturing facility. The manufacturing plant must make certain minimum capital investments depending on its location (\$500 million in Maricopa and Pima and \$50 million in all other counties). The TPT diversion provision has not yet been utilized.

Chapter 340 makes several changes to the existing program, but retains the \$50 million cap. Given that the cap is unchanged, the Chapter 340 provisions are not

Table 5

FY 2017 through FY 2020 One-Time Financing Sources
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Balance Forward	\$284.0	\$171.0	\$37.5	\$52.2
Budget Legislation Fund Transfers	<u>144.4</u>	<u>8.2</u>	<u>0.0</u>	<u>0.0</u>
Total One-Time Financing	<u>\$428.4</u>	<u>\$179.2</u>	<u>\$37.5</u>	<u>\$52.2</u>

expected to result in any additional revenue loss for the state.

32) Fractional Ownership Aircraft TPT Exemption

Chapter 340 exempts aircraft sales from TPT if the aircraft is registered with a fractional ownership program that meets the requirements of the Federal Aviation Administration. (Fractional ownership of aircraft refers to an arrangement under which multiple owners share the costs of purchasing, leasing and operating an aircraft.) The fiscal impact of this provision cannot be determined and is therefore currently unknown.

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will increase from \$663.6 million in FY 2017 to \$680.8 million in FY 2018. This URS increase results in a FY 2018 General Fund revenue loss of \$(17.2) million relative to FY 2017. As shown in *Table 7*, URS distributions are estimated to increase to \$680.9 million in FY 2019 and \$698.9 million in FY 2020, which will result in net General Fund revenue losses of \$(0.1) million and \$(18.0) million in FY 2019 and FY 2020, respectively.

One-Time Financing

As shown in *Table 5*, one-time financing sources are available in FY 2017 through FY 2020. The following is a discussion of the one-time financing sources.

FY 2017

The \$428.4 million in one-time financing sources for FY 2017 includes:

Fund Transfers

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorized transfers to the General Fund from the following sources:

- \$78.9 million from the Special Employee Health Insurance Trust Fund (HITF)
- \$461,600 from the Automation Operations Fund

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires transfers to the General Fund before July 1, 2017 from the following sources:

- \$35.0 million from the Arizona Health Care Cost Containment System's (AHCCCS) Prescription Drug Rebate Fund.
- \$30.0 million from the Department of Health Services' (DHS) Behavioral Health Services Fund.

The total amount of fund transfers to the General Fund in FY 2017 is \$144.4 million.

Balance Forward

The FY 2016 General Fund ending balance carried into FY 2017 was \$284.0 million.

FY 2018

The \$179.2 million in one-time financing sources for FY 2018 includes:

Fund Transfers

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires a transfer of \$8,172,700 to the General Fund from the monies received by the Attorney General (AG) pursuant to a settlement with Moody's Corporation, Moody's Investor Service, Inc., and Moody's Analytics, Inc. The AG along with 20 other states and the District of Columbia brought a lawsuit against Moody's alleging that the company had misrepresented the creditworthiness of mortgage-backed securities in the period leading up to the Great Recession. As a result of the settlement, the AG received \$12,672,728 of which \$2,000,000 was allocated to attorney's fees and \$2,500,000 as restitution to victims. The remaining \$8,172,728 will be transferred to the General Fund in FY 2018.

Balance Forward

The FY 2017 General Fund ending balance carried into FY 2018 is projected to be \$171.0 million.

FY 2019

The \$37.5 million in one-time financing sources for FY 2019 includes:

Balance Forward

The FY 2018 General Fund ending balance carried into FY 2019 is projected to be \$37.5 million.

FY 2020

The \$52.2 million in one-time financing sources for FY 2020 includes:

Balance Forward

The FY 2019 General Fund ending balance carried into FY 2020 is projected to be \$52.2 million.

Table 6

GENERAL FUND REVENUE - FY 2016 - FY 2018

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2016	% CHANGE PRIOR YR	FORECAST FY 2017	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2018	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,299,013.5	2.5%	4,451,557.0	3.5%	152,543.5	4,646,794.4	4.4%	195,237.4
Income - Individual	3,956,921.7	5.2%	4,118,552.1	4.1%	161,630.3	4,346,658.6	5.5%	228,106.5
- Corporate	549,626.3	-17.1%	420,515.8	-23.5%	(129,110.5)	401,445.4	-4.5%	(19,070.4)
Property	38,483.3	5.4%	40,151.2	4.3%	1,667.9	41,543.1	3.5%	1,391.9
Luxury - Tobacco	24,959.1	5.6%	24,543.5	-1.7%	(415.7)	24,436.1	-0.4%	(107.4)
- Liquor	34,086.9	3.0%	34,222.3	0.4%	135.4	34,598.9	1.1%	376.5
Insurance Premium	490,576.3	9.1%	515,780.1	5.1%	25,203.8	539,005.1	4.5%	23,225.1
Other Taxes (Includes MV Tax)	7,958.5	5.6%	8,356.4	5.0%	397.9	8,607.1	3.0%	250.7
Subtotal - Taxes	9,401,625.6	2.6%	9,613,678.3	2.3%	212,052.7	10,043,088.6	4.5%	429,410.3
Other Non-Tax Revenues:								
Lottery	64,972.8	-1.7%	68,761.3	5.8%	3,788.5	77,174.4	12.2%	8,413.2
Licenses, Fees and Permits	30,807.0	-1.0%	31,838.3	3.3%	1,031.3	32,315.9	1.5%	477.6
Interest	13,488.0	32.1%	17,698.9	31.2%	4,210.9	17,698.9	0.0%	0.0
Sales and Services	42,691.7	11.8%	44,826.3	5.0%	2,134.6	46,036.6	2.7%	1,210.3
Other Miscellaneous	92,566.9	18.8%	96,582.2	4.3%	4,015.3	100,841.8	4.4%	4,259.6
Transfers and Reimbursements	82,651.8	45.0%	72,888.9	-11.8%	(9,762.8)	62,471.8	-14.3%	(10,417.2)
Disproportionate Share Revenue	93,866.3	6.9%	94,321.6	0.5%	455.3	91,791.4	-2.7%	(2,530.2)
Subtotal - Other Non-Tax	421,044.4	14.3%	426,917.5	1.4%	5,873.1	428,330.8	0.3%	1,413.3
Subtotal On-Going Revenue	9,822,670.0	3.0% ^{1/}	10,040,595.9	2.2% ^{2/}	217,925.8	10,471,419.4	4.3%	430,823.6
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(107,200.0)	N/A	(107,200.0)
Newly Enacted Changes	0.0	N/A	0.0	N/A	0.0	(9,982.8)	N/A	(9,982.8)
Subtotal w/Tax Law Changes	9,822,670.0	3.0%	10,040,595.9	2.2%	217,925.8	10,354,236.6	3.1%	313,640.8
Urban Revenue Sharing (URS)	(605,634.3)	N/A	(663,582.2)	N/A	(57,947.8)	(680,770.1)	N/A	(17,187.9)
Subtotal w/Tax Law Changes/URS	9,217,035.7	3.3%	9,377,013.7	1.7%	159,978.0	9,673,466.5	3.2%	296,452.9
One-Time Financing Sources:								
Fund Transfers	220,296.6	182.0%	144,361.6	-34.5%	(75,935.0)	8,172.7	-94.3%	(136,188.9)
Tax Amnesty	47,048.5	N/A	0.0	-100.0%	(47,048.5)	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	267,345.1	242.2%	144,361.6	-46.0%	(122,983.5)	8,172.7	-94.3%	(136,188.9)
Subtotal - Revenues	9,484,380.8	5.3%	9,521,375.3	0.4%	36,994.5	9,681,639.2	1.7%	160,264.0
Balance Forward	312,276.0	-45.9%	284,015.0	-9.1%	(28,261.0)	170,976.5	-39.8%	(113,038.5)
Total - Resources	9,796,656.8	2.2%	9,805,390.3	0.1%	8,733.5	9,852,615.7	0.5%	47,225.5

^{1/} The 3.0% FY 2016 increase includes \$(97.9) million in tax law changes. Adjusting for these changes, the base FY 2016 increase is 4.0%.

^{2/} The 2.2% FY 2017 increase includes \$(127.4) million in tax law changes. Adjusting for these changes, the base FY 2017 increase is 3.5%.

Table 7

GENERAL FUND REVENUE - FY 2019 - FY 2020

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2019	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2020	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,820,130.9	3.7%	173,336.5	5,033,509.2	4.4%	213,378.4
Income - Individual	4,536,389.8	4.4%	189,731.2	4,755,071.8	4.8%	218,682.0
- Corporate	324,017.9	-19.3%	(77,427.5)	268,287.1	-17.2%	(55,730.9)
Property	42,719.8	2.8%	1,176.7	43,946.9	2.9%	1,227.1
Luxury - Tobacco	24,212.4	-0.9%	(223.7)	23,991.1	-0.9%	(221.3)
- Liquor	35,075.2	1.4%	476.4	35,560.3	1.4%	485.0
Insurance Premium	549,274.1	1.9%	10,268.9	556,451.6	1.3%	7,177.6
Other Taxes (Includes MV Tax)	8,865.3	3.0%	258.2	9,131.3	3.0%	266.0
Subtotal - Taxes	10,340,685.4	3.0%	297,596.7	10,725,949.3	3.7%	385,263.9
Other Non-Tax Revenues:						
Lottery	86,853.0	12.5%	9,678.6	97,018.8	11.7%	10,165.7
Licenses, Fees and Permits	33,475.6	3.6%	1,159.7	33,967.6	1.5%	492.0
Interest	23,008.6	30.0%	5,309.7	26,459.9	15.0%	3,451.3
Sales and Services	47,279.6	2.7%	1,243.0	48,556.1	2.7%	1,276.5
Other Miscellaneous	102,357.5	1.5%	1,515.7	107,151.2	4.7%	4,793.7
Transfers and Reimbursements	62,890.6	0.7%	418.9	65,406.2	4.0%	2,515.6
Disproportionate Share Revenue	84,571.6	-7.9%	(7,219.8)	77,352.1	-8.5%	(7,219.5)
Subtotal - Other Non-Tax	440,436.5	2.8%	12,105.7	455,911.9	3.5%	15,475.4
Subtotal On-Going Revenue	10,781,121.9	3.0% ^{3/}	309,702.5	11,181,861.2	3.7% ^{4/}	400,739.3
Previously Enacted Tax Law Changes	(69,400.0)	N/A	37,800.0	(31,000.0)	N/A	38,400.0
Newly Enacted Changes	(9,596.2)	N/A	386.6	(4,598.3)	N/A	4,997.9
Subtotal w/Tax Law Changes	10,702,125.7	3.4%	347,889.1	11,146,262.9	4.1%	444,137.2
Urban Revenue Sharing (URS)	(680,860.2)	N/A	(90.1)	(698,850.6)	N/A	(17,990.5)
Subtotal w/Tax Law Changes/URS	10,021,265.5	3.6%	347,799.0	10,447,412.3	4.3%	426,146.8
One-Time Financing Sources:						
Fund Transfers	0.0	-100.0%	(8,172.7)	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%	(8,172.7)	0.0	N/A	0.0
Subtotal - Revenues	10,021,265.5	3.5%	339,626.3	10,447,412.3	4.3%	426,146.8
Balance Forward	37,524.8	-78.1%	(133,451.7)	52,227.4	39.2%	14,702.6
Total - Resources	10,058,790.3	2.1%	206,174.6	10,499,639.7	4.4%	440,849.4

^{3/} Adjusting for the \$(117.2) million in tax law changes in FY 2018, the base FY 2019 increase is 4.1%.

^{4/} Adjusting for the \$(79.0) million in tax law changes in FY 2019, the base FY 2020 increase is 4.5%.

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 2016

In CY 2015, Arizona real adjusted personal income grew by 3.07%, with a trend growth rate of 0.42%. Since the “excess” growth rate in CY 2015 was 2.65%, the formula recommended a BSF deposit of \$236.8 million in FY 2016. The Legislature did not authorize the deposit.

Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay wildland fire suppression claims. In June 2016, the State Forester used \$587,800 for that purpose. When a federal agency makes payment on the claim, the State Forester must reimburse the State Treasurer for that amount within 45 days. The Treasurer is required to deposit the reimbursed amount into the BSF. Not more than \$10 million in unreimbursed claims can be outstanding from the fund at any time.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorized the Department of Child Safety and Department of Economic Security (DES) to use up to \$35.0 million each from the BSF to provide funding for reimbursement grants in FY 2016. Chapter 117 required the BSF to be fully reimbursed by September 1, 2016. This loan authority was used only by DES, which withdrew \$35.0 million in July 2016 and reimbursed the State Treasurer for that amount in August 2016.

FY 2017

In CY 2016, Arizona adjusted personal income increased by 3.17%, with a trend growth rate of 2.26%. Since the CY 2016 "excess" growth rate was 0.91%, the formula recommended a BSF deposit of \$84.3 million in FY 2017. The Legislature did not authorize the deposit.

In each month of FY 2017, BSF monies were used by the State Forester to pay wildland fire suppression claims. As of May 2017, the fund had \$3,878,600 in outstanding unreimbursed claims, which the State Forester will reimburse to the Treasurer upon federal payment on the claims.

Laws 2016, Chapter 117 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) authorized the Department of Economic Security (DES) to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2017. Chapter 305 requires the BSF to be fully reimbursed by September 1, 2017.

FY 2018

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will grow by 3.57% in CY 2017. Since this is 0.39% above the estimated trend growth rate of 3.18%, the formula is projected to recommend a BSF deposit of \$36.6 million in FY 2018.

Laws 2017, Chapter 305 appropriates \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

Additionally, Laws 2017, Chapter 305 appropriates \$2.6 million from BSF interest earnings to the Department of Education for financial assistance to school districts and charter schools located in counties with a population of less than 500,000. The distribution also applies to school districts and charter schools that primarily serve homeless or special needs students, regardless of location. The distribution is proportionally allocated based on average daily membership counts from the 2016-2017 school year.

STATUTORY CHANGES

The FY 2018 Budget Procedures Budget Reconciliation Bill (Laws 2017, Chapter 307) suspends the requirement that the Legislature appropriates monies to or transfer monies from the Budget Stabilization Fund pursuant to A.R.S. § 35-144 for FY 2018, FY 2019, and FY 2020.

Table 1

Budget Stabilization Fund ^{1/}				
(\$ in Thousands)				
	Actual FY 2015	Actual FY 2016	Estimate FY 2017	Estimate FY 2018
General Fund Revenues				
Adjusted Revenues	\$8,934,730.0 ^{2/}	\$9,265,881.5 ^{2/}	\$9,377,013.7	\$9,673,466.5
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	625,431.1	648,611.7	656,391.0	677,142.7
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	2.12%	3.07%	3.17%	3.57%
7-Year Average Income Growth	<u>(0.26)%</u>	<u>0.42%</u>	<u>2.26%</u>	<u>3.18%</u>
Annual Difference	2.38%	2.65%	0.91%	0.39%
BSF Transactions				
Beginning BSF Balance	455,333.9	457,627.4	460,846.5	460,467.9
BSF Formula Recommendation	198,435.6	236,770.3	84,319.5	36,570.4
Actual Transfer In				
None	0.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Interest Income – L'14, Ch.9 ^{3/}	(1,000.0)	0.0	0.0	0.0
Transfer of BSF Monies – L'16, Ch. 219 ^{4/}	0.0	(587.8)	(3,878.6)	0.0
Transfer of BSF Interest Income – L'16, Ch. 117 ^{5/}	0.0	0.0	(1,500.0)	0.0
Transfer of BSF Interest Income – L'17, Ch. 305 ^{6/}	0.0	0.0	0.0	(1,500.0)
Transfer of BSF Interest Income – L'17, Ch. 305 ^{7/}	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(2,600.0)</u>
SUBTOTAL	(1,000.0)	(587.8)	(5,378.6)	(4,100.0)
Balance	454,333.9	457,039.6	455,467.9	456,367.9
Interest Earnings & Equity Gains/Losses ^{8/}	3,293.5	3,806.9	5,000.0	5,100.0
Ending BSF Balance	\$ 457,627.4	\$ 460,846.5	\$ 460,467.9	\$ 461,467.9
Percent of Revenues	5.1%	5.0%	4.9%	4.8%

^{1/} BSF history prior to FY 2015 can be found on the JLBC website.

^{2/} Actual General Fund revenue for FY 2015 and FY 2016, as determined by the Economic Estimates Commission.

^{3/} Laws 2014, Chapter 9 appropriated \$1.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

^{4/} Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay certain wildland fire suppression claims. The monies must be reimbursed to the State Treasurer within 45 days of a federal agency's payment on the claim.

^{5/} Laws 2016, Chapter 117 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

^{6/} Laws 2017, Chapter 305 appropriates \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

^{7/} Laws 2017, Chapter 305 appropriates \$2.6 million from BSF interest earnings to the Department of Education for rural assistance in FY 2018.

^{8/} Interest earnings for FY 2017 and FY 2018 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.

CONSOLIDATED RETIREMENT REPORT

CONSOLIDATED RETIREMENT REPORT

Update - Hall v. Elected Officials' Retirement Plan

In November 2016, the Arizona Supreme Court released a decision in *Hall v. Elected Officials' Retirement Plan*, ruling that changes made by Laws 2011, Chapter 357 to the Elected Officials' Retirement Plan (EORP) for persons who were active members at that time violated the Arizona Constitution.

Due to ongoing litigation at that time (as noted in the *FY 2018 Baseline*), any impact to other systems affected by Chapter 357 (the Public Safety Personnel Retirement System and the Corrections Officer Retirement Plan (CORP)) was yet to be officially determined.

On May 31, 2017, the PSPRS Board of Trustees issued a formal recommendation that employer groups begin implementing the *Hall* decision, including PSPRS and CORP employers. While final Superior Court rulings have not been entered to carry out the *Hall* decision, this action taken by the PSPRS Board of Trustees suggests the decision will broadly apply to all 3 systems affected by Chapter 357 (PSPRS, CORP and EORP).

Given the timing of the *Hall* decision and outstanding legal issues, PSPRS did not incorporate the impact of the decision into its actuarial determination of FY 2018 employer contribution rates. However, at that time (November 2016) PSPRS did provide broad estimates of the potential impact of the decision.

The impact of the decision on the PSPRS system was expected to be significantly lower than CORP and EORP, given that most plan design changes litigated in *Hall* for the PSPRS system were superseded by Proposition 124 and its related legislation.

In November 2016, PSPRS Staff stated that the effect of *Hall* would be more significant on the CORP system because *Hall* would have returned CORP to its more expensive plan design in place prior to the enactment of Chapter 357. As noted in the *FY 2018 Baseline*, the impact on the CORP employer contribution rate was estimated to have an annual General Fund impact of \$24.8 million.

That previously estimated impact of *Hall* is no longer applicable given the passage of Laws 2017, Chapter 163 and SCR 1023. Assuming voter approval of SCR 1023, those legislative changes would supersede most plan design changes litigated in *Hall* for the CORP system, thereby eliminating most of the fiscal impact of *Hall* for CORP.

PSPRS indicated the *Hall* impact to EORP could be funded through 1 of 2 ways: 1) Increasing the fixed 23.5% employer contribution rate to 53.7%, thereby sharing the increased costs between the state and local governments and resulting in an annual General Fund cost of \$3.8 million; or 2) absorbing the entire cost through an increase in the current EORP General Fund appropriation, resulting in an annual General Fund cost increase of \$28 million.

In addition, PSPRS has provided preliminary information on the technical implementation of *Hall* as applied to the PSPRS managed systems. In a PSPRS Staff memo dated May 31, 2017, PSPRS indicated that based on legal advice, the system cannot take certain relief actions related to *Hall* directly. For example, PSPRS cannot directly return excess employer contributions to members, rather they must be returned from the employer. Employers must also work within their Human Resources/Payroll systems to revert to the lower pre-Chapter 357 employer contribution rate.

Therefore, PSPRS expects the exact timeline for implementation of *Hall* to depend on actions taken by each individual employer. PSPRS indicates the Department of Administration will revert to the lower employee contribution rate for state employees at the beginning of FY 2018.

Below is a summary of the *Hall* implementation details by PSPRS system:

PSPRS

Employees hired prior to 2012 will have their employee contribution rate reduced to 7.65% from the current rate of 11.65%. PSPRS estimates this would result in an estimated \$190-\$210 million in overcollected employee contribution amounts that must be refunded.

In addition, certain employees who retired after the effective date of the 2011 pension changes (Laws 2011, Chapter 357) would have retroactive Permanent Benefit Increases (PBIs) restored if they are eligible. These potential retroactive PBI changes would be estimated to increase unfunded liabilities to the system by \$500 million.

These 2 impacts would reduce the funded status from 46.0% to 44.5%. Because these impacts will increase the unfunded liability of the PSPRS system, they will have the impact of increasing future employer contribution rates.

At this time, PSPRS actuaries have not estimated these contribution rate increases.

CORP

Hall will not impact the CORP employee contribution rate, as the 2011 pension changes held this rate at 8.41%.

In terms of PBIs, after the passage of SCR 1023 and Chapter 163, the only members entitled to relief from the Hall ruling are those who retired after the effective date of the 2011 pension changes (Laws 2011, Chapter 357). Certain employees will receive retroactive PBIs restored if they are eligible.

EORP

Due to Hall, employees hired prior to 2012 will have their contribution rate reduced to 7.00% from the current rate of 13.00%. This will result in overcollected employee contribution amounts that must be refunded.

In addition, the Hall ruling will effectively mitigate all benefit changes for EORP employees who were active at the time the 2011 pension changes became effective.

The official FY 2018 actuarial valuation estimates that the now-closed EORP fund balance would be depleted in 13 years. Including the impact of Hall, this timeframe would decrease to 10 years. In order to extend this post-Hall 10-year period and ensure payment of all benefits, the actuaries have recommended that the fixed General Fund appropriation and/or the fixed employer contribution rate be increased as noted above.

The rest of the Consolidated Retirement Report (CRR) will discuss the pension systems' financials without the impact of Hall, as the annual actuarial valuations published by the pension system's reflects plan valuations as of June 30, 2016 (end of FY 2016).

Summary

The 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 2018 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)
- 2017 Legislative Session
 - CORP Modifications and 2018 Ballot Proposition
 - Other Bills
- Litigation Issues
 - Fields v. Elected Officials' Retirement Plan
 - Hall v. Elected Officials' Retirement Plan
- Proposition 124
- Background
 - The Different Systems
 - Enrollment and Funded Status
 - Permanent Benefit Increase (PBI)
 - Long-Term Contribution Rate Estimates

FY 2018 Impacts and Total Funding

The General Fund cost associated with all retirement systems in FY 2018 is estimated to be \$193.8 million and the Total State Funds cost is \$512.4 million. (Please see Table 1 for the total costs.)

	Arizona Public Retirement Systems FY 2018 Employer Cost					
	FY 2018 Change 1/			FY 2018 Total Cost 2/		
	General Fund	All Other Funds 3/	Total	General Fund	All Other Funds 3/	Total
Arizona State Retirement System	\$ 107,400	\$ 333,300	\$ 440,700	\$ 61,753,800	\$ 191,631,800	\$ 253,385,600
Public Safety Personnel Retirement System	2,814,100	7,243,900	10,058,000	28,229,900	71,380,900	99,610,800
Corrections Officer Retirement Plan	9,339,800	150,600	9,490,400	81,117,200	1,131,700	82,248,900
Elected Officials' Retirement Plan/Elected Officials' Defined Contribution Retirement System	-	-	-	7,938,000	109,900	8,047,900
University Optional Retirement Plan	-	-	-	14,810,800	54,290,400	69,101,200
Grand Total	\$ 12,261,300	\$ 7,727,800	\$ 19,989,100	\$ 193,849,700	\$ 318,544,700	\$ 512,394,400

1/ Represents the cost of the change in the employer contribution rate increase for all state agencies.
 2/ Represents the JLBC estimate of the total cost of the system and does not reflect any FY 2018 change in Personal Services costs.
 3/ Includes both Other Appropriated Funds and Non-Appropriated Funds.

The employer contribution rate for the retirement systems may change each year depending on the latest actuarial valuation. Some of the retirement costs may be covered by agencies' non-appropriated funding sources. Based on published actuarial valuations from ASRS and PSPRS (which exclude any impact of *Hall*), the FY 2018 employer contribution will increase as follows:

- ASRS – A General Fund increase of \$107,400 and a Total State Funds increase of \$440,700 as a result of a slightly higher FY 2018 ASRS contribution rate.
- PSPRS – A General Fund increase of \$2.8 million and a Total State Funds increase of \$10.1 million.
- CORP – A General Fund increase of \$9.3 million and Total State Funds increase of \$9.5 million.
- EORP and the EODC System – Because elected officials' contribution rates are fixed in statute, there would not be an automatic FY 2018 cost increase. EORP actuaries, however, have indicated that current contribution rates would deplete all EORP assets in 13 years.
- UORP – Because the employer contribution rate is fixed at 7%, there is no change in the FY 2018 employer contribution rate.

Table 2 shows the total budgeted employer cost changes across retirement systems in the FY 2018 budget. The FY 2018 enacted budget appropriates \$17.6 million to state agencies for some of the FY 2018 rate increases discussed above. This consists of \$11.0 million from the General Fund and \$6.6 million from Other Appropriated Funds.

	FY 2018 Budgeted Rate Increase
<i>PSPRS</i>	
General Fund	2,612,400
Other Appropriated Funds	5,549,300
Subtotal	\$ 8,161,700
<i>CORP</i>	
General Fund	8,377,100
Other Appropriated Funds	1,011,200
Subtotal	\$ 9,388,300
<u>Total</u>	
General Fund	10,989,500
Other Appropriated Funds	6,560,500
Grand Total	\$17,550,000

The following sections discuss FY 2018 contribution rates for the state's retirement systems and the fiscal impacts associated with those rates. Legal issues that affect the state's retirement systems are discussed at the end of the CRR.

ASRS

The General Fund cost associated with ASRS in FY 2018 is estimated to be \$61.8 million and the Total State Funds cost is \$253.4 million.

At its December 2016 meeting, the ASRS Board of Trustees kept the system's main employer contribution rate at 11.34% of Personal Services in FY 2018. There was, however, a 0.02% increase in a separate rate for disability insurance. The employer contribution rate for disability insurance will increase from 0.14% to 0.16%, for a total overall employer contribution rate of 11.50%. This higher contribution rate increases the General Fund cost by \$107,400 and the Total State Funds cost by \$440,700 in FY 2018. The budget does not increase agency funding for these costs. *(Please see Table 3 for historical ASRS contribution rates, excluding disability.)*

The rate for disability insurance increased because of increased liabilities from individuals not recovering and coming off disability as anticipated and lower-than-expected investment returns.

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/	FY 2007	8.60
FY 1990	2/	FY 2008	9.10
FY 1991	2/	FY 2009	8.95
FY 1992	2/	FY 2010	9.00
FY 1993	2/	FY 2011	9.60
FY 1994	2/	FY 2012	10.50
FY 1995	2/	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	FY 2018	11.34

1/ As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

2/ Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

PSPRS and CORP

The General Fund cost associated with PSPRS in FY 2018 is estimated to be \$28.2 million and the Total State Funds cost is \$99.6 million. In addition, the General Fund cost

associated with CORP is \$81.1 million in FY 2018 and the Total State Funds cost is \$82.2 million.

Based on the official actuarial valuations for FY 2018 (which do not include the impact of the *Hall* case) the FY 2018 rate increase for PSPRS is primarily caused by the passage of Proposition 124 and a reduction in assumed future investment returns, and for CORP a reduction in assumed future investment returns. These impacts are as follows:

- Proposition 124 – During the FY 2017 valuation, (which analyzed the plans as of June 30, 2015) PSPRS actuaries assumed current law, that the 2011 pension changes would apply to employees who were active at the time, as litigation on this subject had not yet been finalized. Under this assumption, these members were projected to receive an average PBI totaling 0.5% per year during retirement. Proposition 124 and related legislation passed in 2016 instead replaced this PBI with a guaranteed COLA, which PSPRS actuaries estimated would average 1.75% per year during retirement.

This greater average benefit increase during retirement compared to the FY 2017 valuation is the main contributor to the PSPRS rate increase in the FY 2018 valuation (*see Table 5 Benefit Changes line for more information*). The average benefit increase of 1.75% under Proposition 124, however, is less expensive than the estimated 2.0% annual increase that would have occurred if no legislation was passed and the *Hall* decision were in effect for PSPRS.

- Reduction in Assumed Investment Returns – Prior to the FY 2018 valuation, the PSPRS Board had used a 7.85% assumed investment return. Beginning with the FY 2018 valuation, the PSPRS Board has adopted a 7.5% assumed rate of return. Because this increases the system's unfunded liability, it requires an increase in the PSPRS employer contribution rate. (*See Table 5 Assumption Changes line for more information.*)

In addition, smaller factors in the increases included lower-than-expected rate of return on assets during FY 2016 and lower-than-estimated employee payroll growth. These variables are partially offset by decreases associated with not having a PBI this year given the low return on investments and more PSPRS and CORP members being subject to the 2011 pension changes (i.e., Tier 2), who have a less costly tier of benefits.

The budget includes the following funding for the FY 2018 contribution rate increases for state agencies with employees enrolled in PSPRS or CORP:

- \$8,377,100 from the General Fund for the FY 2018 CORP rate increase at the Department of Corrections.

- \$2,612,400 from the General Fund and \$4,790,200 from Other Appropriated Funds for the FY 2018 PSPRS rate increase at the Department of Public Safety.
- \$641,900 from Other Appropriated Funds for the FY 2018 PSPRS rate increase at the Game and Fish Department.
- \$1,011,200 million from Other Appropriated Funds for the FY 2018 CORP rate increase at the Department of Juvenile Corrections.
- \$177,200 from Other Appropriated Funds for the FY 2018 PSPRS rate increase at the Arizona State Parks Board.

PSPRS – The retirement system consists of numerous state and local subgroups, each with its own contribution rate (*see Table 4*). The aggregate employer rate increases from 42.61% to 52.09%. Compared to employers, the aggregate employee contribution rate remains flat at 11.65%. The *Hall* decision will result in a reduction of employee contribution rates for those who entered into the system prior to 2012 to 7.65%. In addition, only employers pay 2.33% for supplemental disability insurance, an increase of 0.41% from FY 2017.

CORP – As with PSPRS, CORP consists of subgroups. The FY 2018 CORP aggregate rate is 20.98%, an increase of 2.27% from FY 2017. The employee contribution rate remains flat at 8.41% as required by law. CORP employers also pay 0.28% for supplemental disability insurance, an increase of 0.01% from FY 2017. (*Please see Table 5 for reasons behind contribution rate changes and Litigation Issues.*)

Additionally, the rate was set prior to CORP reforms passed in Laws 2017, Chapter 163. Any changes to the CORP contribution rate as a result of Chapter 163 will not be realized until FY 2019. (*Please see the 2017 Legislative Session section.*)

EORP and EODC System

The General Fund cost associated with EORP and the EODC System in FY 2018 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.

Table 4
PSPRS/CORP State Employer Group Retirement Rates
(Excludes Supplemental Disability)

Retirement System	Employer		Employee
	FY 2017	FY 2018	FY 2018 ^{1/}
<i>Public Safety Personnel Ret. System</i>			
Liquor License Investigators	80.61	97.00	11.65
Department of Public Safety ^{2/}	82.96	91.97	6.65
Northern Arizona University Police	52.25	58.75	11.65
University of Arizona Police	35.82	44.37	11.65
Arizona State University Police	34.29	39.99	11.65
Game and Fish Department	93.60	104.71	11.65
Attorney General Investigators	66.59	63.53	11.65
DEMA Firefighters	28.20	31.22	11.65
Parks Police	44.94	57.35	11.65
<i>Corrections Officer Ret. Plan</i>			
Corrections Officer - ADC	18.85	21.17	8.41
Corrections Officer - DJC	24.86	31.03	8.41
DPS Dispatchers ^{3/}	20.41	24.48	7.96
Probation Officers	20.88	23.34	8.41

^{1/} The PSPRS and CORP employee contributions are unchanged from FY 2017. Once *Hall* is implemented the rate for employees hired prior to 2012 will be 7.65% (or 2.65% for DPS employees).
^{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.

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 2018.

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* and *Hall*. Plan actuaries estimate that given current funding levels, the closed EORP will have enough assets to pay member benefits for only the next 13 years, or only 10 years including the impact of *Hall*.

UORP

The General Fund cost associated with UORP in FY 2018 is estimated to be \$14.8 million and the Total State Funds cost is \$69.1 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 2018.

Table 5
Reasons for Change in the Employer Contribution Rate ^{1/}

	ASRS	PSPRS	CORP
FY 2017 Contribution Rate	11.48%	42.61%	18.71%
Asset (Gain)/Loss	0.00%	0.38%	0.22%
Payroll ^{2/}	0.00%	0.08%	0.37%
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 ^{3/}	0.00%	-0.44%	-0.25%
Benefit Changes ^{4/}	N/A	6.07%	0.15%
Assumption Changes ^{5/}	N/A	3.55%	2.01%
Other	0.00%	0.01%	-0.07%
FY 2018 Contribution Rate	11.50%	52.09%	20.98%
Net Change	0.02%	9.48%	2.27%

^{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.
^{2/} Actual payroll growth was lower than the assumed rate of 4.0%, requiring a higher employer contribution rate on the smaller than projected salary base.
^{3/} There was no PBI increase in FY 2017, compared to an assumed PBI level of 2.0%, therefore the reduction in liabilities is reflected in a slightly decreased employer rate.
^{4/} Reflects changes caused by the impacts of Proposition 124 that required a higher employee contribution rate in PSPRS because of the switch from a PBI to a Cost of Living Adjustment. This is because the COLA enacted by Proposition 124 tends to generate larger benefit increases than the PBI instituted under the 2011 pension reforms, which PSPRS actuaries assumed would be upheld under the *Hall* litigation in the FY 2017 valuation (which analyzed the plans as of June 30, 2015).
^{5/} Reflects change in the investment return assumption from 7.85% to 7.5%, thereby increasing the unfunded liabilities of the PSPRS managed plans and requiring a higher employer contribution rate.

(Please see Table 6 for projected contribution rates for all systems through FY 2020.)

2017 Session Legislation

The retirement systems were affected by legislation relating to the following issues in the 2017 Regular Session:

CORP Modifications and 2018 Ballot Proposition

Laws 2017, Chapter 163 make numerous changes to CORP pension benefits. The sections below discuss the November 2018 ballot proposition and the repeal of PBI mechanism, modifications to the defined benefit plan for future CORP members, the switch to a defined contribution plan for many future CORP members, and the potential fiscal impact of these changes. Many of the reforms are either similar or identical to reforms designed for PSPRS that passed in the 2016 Legislative Session (Laws 2016, Chapter 2).

PBI Repeal

Prior to Chapter 163, annual increases in the base pension benefit for CORP members were funded by a PBI mechanism that determined pension benefit increases based on the availability of excess investment earnings, with increases capped at 4% annually. Chapter 163 replaces the PBI with an annual cost-of-living adjustment (COLA) based on the average annual change in the Phoenix-Mesa Consumer Price Index, capped at 2% annually.

The replacement of the PBI with the COLA could reduce benefit increases for current CORP members. As a result, the Legislature adopted SCR 1023, which referred a measure to the ballot that included an amendment to Article 29, Section 1 of the Arizona Constitution specifying an exception to the provision that public retirement system benefits not be “diminished or impaired” to permit the changes enacted in Chapter 163. The ballot measure will be voted on in November 2018.

Defined Benefit Changes

Chapter 163 also modified the base defined benefit pension for CORP members, but only for employees hired on or after July 1, 2018 (referred to as Tier 3). These modifications for Tier 3 members include:

- Limiting enrollment for Tier 3 members into the defined benefit pension to probation and surveillance officers. All other members, such as detention and corrections officers, are required to enroll in a defined contribution plan.
- A cap on annual compensation that may be used for the computation of pension benefits ("pensionable pay cap") of \$70,000, adjusted once every 3 years based on an index of public safety wages. For employees hired before July 1, 2017, the annual compensation cap is \$200,000, and is adjusted annually by the Internal Revenue Service.
- Tier 3 employee contributions equal to 33.3% of the normal cost and 50% of the unfunded accrued actuarial liabilities solely attributable to Tier 3 members.
- Annual benefit increases based on the average annual change in the Phoenix-Mesa Consumer Price Index, capped at 2% annually. The maximum allowable increase is lower than 2% if the funded ratio for the benefits of Tier 3 members falls below 90%, and no increase is allowed if the funded ratio falls below 70%.
- A minimum normal retirement age of 55. The current minimum normal retirement age is 52.5 for employees hired on or after January 1, 2012 but before July 1, 2017 (Tier 2 employees), and there is

no minimum age for members hired before January 1, 2012 with at least 20 years of credited service.

Within 90 days of beginning employment, Tier 3 CORP members will be required to make an irrevocable choice to enroll in the modified defined benefit plan or the defined contribution plan discussed below.

Defined Contribution Plan

Chapter 163 requires Tier 3 corrections officers to enroll in the PSPRS defined contribution (DC) plan. The DC plan requires participating employees to contribute 7% of their compensation into a 401(k)-style account each year, with a matching 5% employer contribution.

The employer contributions vest at a rate of 25% in the first year of enrollment, 50% in the second year and 100% in the third year. Vesting determines the share of employer contributions and investment earnings that the employee retains after terminating employment.

Fiscal Impact

In the long term, the bill is expected to result in a savings to the state as the employer contribution rate for corrections officers hired after FY 2018 will be a fixed 5% of salary paid to a defined contribution account. In addition, for other positions such as probation officers, changes to the CORP defined benefit plan will result in a lower ongoing, or "normal" cost for the state than the current CORP plan. The Tier 3 defined benefit plan under Chapter 163 is projected to have an employer normal cost of 4.9% compared to 7.4% for current CORP hires.

In the short-term, the actuaries predict the aggregate CORP employer contribution rate would decline by 2.0% as a result of the legislation. The resulting General Fund savings would be \$7.5 million. Under an alternative scenario developed by PSPRS actuaries, the aggregate CORP employer contribution rate would increase by 8.7%. Given that these results are sensitive to a variety of assumptions made by the actuaries, the estimates should be viewed as highly speculative.

In the medium term, ranging between FY 2020 and FY 2035, the employer contribution rate for CORP's defined benefit plan may increase as more state-level CORP members participate in the defined contribution plan, leaving fewer employees contributing to the defined benefit CORP plan. As fewer employees participate in the CORP defined benefit plan, the employer rate will increase to pay for benefits of retirees.

The CORP system consists of separate employer groups, with each group having its own actuarial status, however, PSPRS actuaries only provided the impact of the

legislation on the aggregate employer contribution rate. Because employer groups are affected differently by the legislation, the aggregate employer contribution rate may not be indicative of the impact on state costs.

ASRS Return to Work Contribution Rate

Laws 2017, Chapter 227 (HB 2166) require employers to pay the alternative contribution rate (ACR) for ASRS retirees who return to work if they are filling a position where the duties of the position are similar to those in the position being vacated by the retiree. Previously, it was possible for an ASRS employer to hire back a retired worker in essentially the same position so long as they created a new title for the retiree. The employer no longer paid a pension contribution for the retired employee. Established in 2012, the ACR was enacted in order to ensure that ASRS employers still made a contribution to ASRS for workers who were hired by an ASRS employer after they retired from the ASRS system, and receive a pension.

PSPRS Risk Pool

Laws 2017, Chapter 235 (SB 1063) make several changes in the PSPRS system designed to mitigate risk amongst employers.

Risk Pool

The bill establishes a risk pool for Tier 3 PSPRS members and employers who have 250 or less active members before July 1, 2017, including state agencies. This accounts for roughly 45% of the PSPRS members. When a smaller employer group experiences an unexpected event (i.e. multiple unexpected retirements), many cannot afford to pay the liability owed immediately. The bill requires these small employers to contribute into the pool in order to offset such risks for new Tier 3 members.

Each employer in the pool is required to contribute an amount actuarially sufficient to pay 50% of 1) the normal cost of the pool and 2) the actuarially determined amount to amortize the unfunded liability within the pool. The remaining 50% of both costs will be paid equally amongst each employee.

Retiree Pool Account

The bill creates the Retiree Pool Account for Tier 3 PSPRS members. The Pool will share the actuarial liability for the employers of Tier 3 members who are eligible for a retirement benefit or a disability pension and for survivors of Tier 3 members who are eligible for a death benefit. The bill requires an amount equal to the present value of future benefit, disability and survivor payments to be transferred into the Pool. This provision is designed to pull together the risk for catastrophic disability benefits for which certain PSPRS members are eligible.

PSPRS Years of Service Change

Laws 2017, Chapter 266 (SB 1115) allows a Tier 2 PSPRS employee to retire after 15 years of credited service if the employee is at least 52.5 years of age, without applying the 4% penalty to their base retirement benefit.

Under current law, a Tier 2 PSPRS member must have 25 years of service to reach normal retirement age. If an employee retires before 25 years of service, the employee must compute their retirement benefit (Years of service x pension multiplier x compensation) and deduct 4% of their base retirement benefit for every year they are below 25 years of service.

PSPRS System Omnibus

Laws 2017, Chapter 269 (HB 2485) makes several changes to the PSPRS system including PSPRS, CORP and EORP. Although largely technical and necessary to conform to updates in federal Internal Revenue Service rules, there are some significant changes including allowing an employer to make a one-time change to the amortization time period to 30 years from 20 years. The state entities in PSPRS use a fixed 20-year amortization period, and are not eligible to make this change.

Additionally, the bill allows a PSPRS member to be eligible for a disability pension in the first 90 days of employment, if the member experiences a catastrophic disability while on duty. Finally, the bill requires that any deferred retirement option plan (DROP) benefit payment be paid as a lump sum distribution to an account created for the member in the PSPRS DC Plan.

Litigation Issues

Two recent court cases have a significant impact on PSPRS, CORP, and EORP.

Fields v. Elected Officials' Retirement Plan

Laws 2011, Chapter 357 made numerous changes to these systems. Among these changes were reducing PBIs and increasing employee contribution rates. *(Please see the Background section for more discussion of PBIs.)*

The Arizona Supreme Court ruled in *Fields v. Elected Officials' Retirement Plan*, however, that the reduction of PBIs for current retirees violated Article 29 of the Arizona Constitution, which specifies that "public retirement system benefits shall not be diminished or impaired." This ruling also applied to PSPRS and CORP retirees.

PSPRS staff estimates that the *Fields* ruling has increased unfunded liabilities for all systems by \$1.8 billion. The increased liabilities in PSPRS and CORP would be paid off over a fixed period of 20 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

The Supreme Court ruled in *Hall vs. The Elected Officials' Retirement Plan* the increased employee contribution rates and reduced PBI for members who were active when Chapter 357 became effective violated Article 29 of the Arizona Constitution.

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 along with the pre-Chapter 357 PBI structure reflected a contractual agreement that could not be modified without employee consent. The Supreme Court upheld this argument and the ruling requires employee contribution rates and PBI structure be restored to pre-Chapter 357 conditions for those active when Chapter 357 became effective.

Because the *Fields* decision regarding PBIs only applies to current retirees, the plaintiffs in *Hall*, who are current employees, successfully challenged the Chapter 357 PBI structure. The plaintiffs argued that as active members of EORP at the time of the enactment of Chapter 357, their benefits may not be "diminished or impaired." 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 EORP members who will not retire for many years.

(Please see the Update - Hall v. Elected Officials' Retirement Plan section for information regarding the impact of the Hall litigation.)

Proposition 124

Laws 2016, Chapter 2 made numerous changes to PSPRS pension benefits. This legislation, along with the related Proposition 124, made among other changes: repealed the PBI mechanism, made modifications to the defined benefit plan for future PSPRS members, and created a new PSPRS defined contribution plan.

(Please see the FY 2018 Baseline Consolidated Retirement Report for more information regarding Chapter 2 and Proposition 124.)

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 similar 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, 2016, there were 627,145 active, inactive, retired, and Deferred Retirement Option Plan (DROP) members enrolled in ASRS, PSPRS, CORP, and EORP. Most employees (91%) are enrolled in ASRS. *(Please see Table 7 for more information.)*

Table 7 also shows each plan's assets and liabilities. To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. *Table 7* reflects current market values for assets and not the actuarial value. The funded status, or the amount of market assets relative to the amount of liabilities, of each plan is:

- 77.6% for ASRS;
- 46.0% for PSPRS;
- 57.3% for CORP; and
- 37.6% 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.

Prior to Chapter 357, statute required that whenever the annual investment earnings from the fund exceed 9.0%, then half of those annual excess earnings were transferred to a PBI reserve account. The transfer to the reserve account occurred regardless of the system's overall funded status.

Actuaries then determined the present value of the reserve account and the monthly benefit increase that the account balance can fund. The annual PBI was then provided in that amount up to a 4% increase. If after a 4% increase monies remained in the reserve account, then those monies were available for the following year's PBI calculation.

Chapter 357 modified the PBI structure for PSPRS, CORP, and EORP members. 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.

Subsequent rulings in the *Fields* and *Hall* cases reinstated the pre-Chapter 357 PBI mechanism for employees hired before 2012. Employees hired after Chapter 357 are governed by the Chapter 357 PBI changes.

However, legislative changes to the PSPRS and CORP plan designs have replaced the PBI structure with a COLA adjustment tied to the cost-of-living for all PSPRS and CORP members (retired and active).

Therefore, now only EORP operates under the PBI mechanism. EORP members elected/appointed before 2012 are entitled to the pre-Chapter 357 PBI, while those beginning service later operate under the Chapter 357 PBI benefit.

Long-Term Contribution Rate Estimates

A.R.S. § 38-848 requires PSPRS to annually report on estimated contribution rates for the next 10 fiscal years. These estimates are required to include both aggregate rates for PSPRS and CORP, in addition to rates for each state employer group within those systems. *(Please see Table 8 for more information. As noted previously, these figures do not include the impact of the Hall litigation.)*

Table 6

Arizona Public Retirement System Contribution Rate Data 1/

	FY 2017		FY 2018		FY 2019		FY 2020	
	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
ASRS 2/3/	11.48%	11.48%	11.50%	11.50%	11.59%	11.59%	11.59%	11.59%
PSPRS 4/5/	42.61%	11.65%	52.09%	11.65%	51.84%	11.65%	52.44%	11.65%
CORP 4/5/	18.71%	8.41%	20.98%	8.41%	21.16%	8.41%	21.44%	8.41%
EORP 6/	23.50%	13.00%	23.50%	13.00%	23.50%	13.00%	23.50%	13.00%
EODC 6/	6.00%	8.00%	6.00%	8.00%	6.00%	8.00%	6.00%	8.00%
UORP 7/	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
		Total		Total		Total		Total
		22.96%		23.00%		23.18%		23.18%
		54.26%		63.74%		63.49%		64.09%
		27.12%		29.39%		29.57%		29.85%
		36.50%		36.50%		36.50%		36.50%
		14.00%		14.00%		14.00%		14.00%
		14.00%		14.00%		14.00%		14.00%

1/ The rates for FY 2017 and FY 2018 are based on the valuation data from 2 years' prior (i.e., FY 2015 and FY 2016). The projected rates for FY 2019 and FY 2020 are based on FY 2016 valuation data.

2/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

3/ The ASRS contribution rate for each year assumes no growth in the system population.

4/ The contribution rates for PSPRS and CORP are aggregated. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group. (Please see Table 4 for individual state employer groups.)

5/ The employer contribution rates displayed for years FY 2019 and FY 2020 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 2018, that rate is 0.27%).

6/ Laws 2013, Chapter 217 established a fixed employer contribution rate for EORP and EODC System members of 23.5% that began January 1, 2014. Of the contribution rate for EODC System members, 6% is retained by the defined contribution system as an employer contribution to the member account and the remaining 17.5% is paid to the EORP Fund.

7/ A.R.S. § 15-1628 fixes the employer and employee contribution rates at 7%.

Membership	ASRS		PSPRS		CORP		EORP	
	FY 2015	FY 2016						
Active (working and contributing)	211,300	208,741	18,409	18,706	14,184	13,846	738	694
State Active Members	26,105	26,105	1,351	1,403	8,539	8,344	97	97
Other Active Members ^{1/}	185,195	182,636	17,058	17,303	5,645	5,502	641	597
Inactive	225,328	218,868	1,923	1,996	2,318	2,792	171	163
Retired Members and Survivor Beneficiaries	137,942	142,203	11,034	11,863	4,410	4,785	1,116	1,123
Deferred Retirement Option Plan	N/A	N/A	1,675	1,365	N/A	N/A	N/A	N/A
Total	574,570	569,812	33,041	33,930	20,912	21,423	2,025	1,980
Funding Status (dollar values in millions) ^{2/}	June 30, 2015	June 30, 2016						
Market Value of Assets	\$33,645	\$35,834	\$6,217	\$6,554	\$1,571	\$1,678	\$309	\$315
Total Actuarial Liability	\$42,968	\$46,177	\$12,686	\$14,249	\$2,740	\$2,931	\$813	\$838
Unfunded Actuarial Liability ^{3/}	\$9,323	\$10,343	\$6,468	\$7,703	\$1,169	\$1,253	\$498	\$523
Funded Status ^{3/}	78.3%	77.6%	49.0%	46.0%	57.3%	57.3%	38.0%	37.6%

^{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 market, not actuarial, value of assets. Excludes the funded status of the retiree health portion of the plan.

Table 8

Arizona Public Retirement System Contribution Rate Historical and Trend Data

	Actual											Projected				
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
ASRS																
Employer	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.50%	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%	11.50%	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%	23.00%	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%	52.09%	51.84%	52.44%	52.09%	52.03%	52.04%	52.27%	52.38%	52.24%
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%	63.74%	63.49%	64.09%	63.74%	63.68%	63.69%	63.92%	64.03%	63.89%
CORP																
Employer 2/3/	8.57%	9.50%	11.31%	13.68%	14.46%	18.21%	18.71%	20.98%	21.16%	21.44%	21.51%	51.64%	21.88%	22.03%	22.00%	21.95%
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%	29.39%	29.57%	29.85%	29.92%	60.05%	30.29%	30.44%	30.41%	30.36%
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%												

1/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.
 2/ The employer contribution rate displayed for years FY 2018 through FY 2026 excludes the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%).
 3/ The employer contribution rate displayed for all years excludes the contribution rate associated with supplemental long term disability insurance (in FY 2017, that rate is 0.27%).

**GENERAL PROVISIONS OF THE
GENERAL APPROPRIATION ACT
AND OTHER OVERALL ISSUES**

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GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) provides direction with regard to several general provisions.

General Provisions

Statewide Adjustments — Each individual agency narrative refers to the allocation of statewide adjustments. The *Agency Detail and Allocations* section includes the specific adjustments for each agency. The adjustments are as follows:

Sections 146 through 148 of the General Appropriation Act make statewide adjustments totaling \$25,000,000 from the General Fund and \$25,137,000 from Other Appropriated Funds in FY 2018 for changes in 3 areas:

- **Employer Health Insurance Contribution Reduction:** \$25,000,000 General Fund and \$25,000,000 Other Appropriated Funds for a one-time adjustment in the employer contribution rates for employee health insurance. *(Please see Health Insurance discussion below for more details.)*
- **Risk Management Premiums:** \$0 net General Fund and \$137,000 Other Appropriated Funds for adjustments to Risk Management premiums in 11 agencies. *(Please see Risk Management below for more details.)*
- **Arizona Financial Information System Collections:** \$0 net General Fund for adjustments in Arizona Financial Information System (AFIS) charges in 13 agencies. *(Please see the Arizona Department of Administration (ADOA) narrative for more details on AFIS charges.)*

In addition to these FY 2018 adjustments, Section 105 made the \$576,800 appropriation from Other Appropriated Funds in the FY 2017 General Appropriation Act for one-time relocation costs for state agencies exempt from lapsing through the end of FY 2018. This appropriation has not yet been allocated to individual agencies pending finalization of relocation plans by the Executive Branch.

Expenditure Reporting — Section 150 continues to state that it is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in the expenditure reporting regardless of yearly changes in

appropriation formats. A different format may be used if agreed to by the Director of the JLBC and incorporated into the budget instructions issued by the Governor's Office of Strategic Planning and Budgeting.

FTE Position Reporting — Section 151 continues to state that the Full Time Equivalent (FTE) Positions contained in the General Appropriation Act sections are subject to appropriation. The section directs the Director of ADOA to account for the utilization of all appropriated and non-appropriated FTE Positions, excluding FTE Positions in the Universities. The Director shall submit the FY 2018 report by October 1, 2018 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. This section defines FTE Positions as total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. The Universities shall report to the JLBC Director in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 152 continues to state that by October 1, 2017 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated and non-appropriated FTE Positions by fund source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2017.

Transfer Authority — Section 153 continues to require ADOA to provide a monthly report to the JLBC Staff on any agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements — Section 154 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2017 General Fund ending balance by September 15, 2017. Based on this information, JLBC Staff shall report to JLBC by October 15, 2017 as to whether FY 2018's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Section 154 states the revenues are forecasted to be \$9,805,400,000 for FY 2017 and \$9,859,200,000 for FY 2018 (this figure is now estimated at \$9,852,624,500 to reflect tax-related legislation and technical adjustments). While both figures include one-time revenues, the FY 2017 figure also includes the beginning balance.

Section 154 also provides revenue and expenditure estimates for FY 2019 and FY 2020 pursuant to A.R.S. § 35-125, which requires the General Appropriation Act to delineate the revenue and expenditure estimates for the budget year and the following 2 years based on existing statutory funding requirements. *(Please see the Budget Highlights section for more details on FY 2019 and FY 2020 estimates.)*

Expenditure Authority — Section 156 continues to state that for purposes of the General Appropriation Act, “expenditure authority” means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

JLBC Review — Section 157 continues to state that for purposes of the General Appropriation Act, “review by the Joint Legislative Budget Committee” means a review by a vote of a majority of a quorum of the members.

Statewide Standard Changes

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2018 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency’s individual appropriation in the FY 2018 General Appropriation Act. Statewide adjustment amounts are mentioned in any relevant agency narrative, but do not have additional discussion.

Employee Related Expenditures

Health Insurance — The state continues to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays the health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings.

Employees have a choice between an Exclusive Provider Organization (EPO, which is the self-insured equivalent of an HMO), a Preferred Provider Organization (PPO) and a Health Savings Account (HSA). An HSA allows for pre-tax contributions and healthcare-related withdrawals, combined with a high-deductible coinsurance plan.

Employee and employer premiums for the CY 2017 plan year are shown in *Table 1*. The FY 2018 budget included a total appropriated funds increase of \$50,000,000 for a one-time adjustment in employer premiums. The rates below do not account for any increase mid-plan year to incorporate the premium adjustment. Rates for the upcoming CY 2018 plan year have not yet been released.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums for the CY 2017 plan year are shown in *Table 2*. The FY 2018 budget did not make assumptions regarding employer premiums for the plan year starting January 1, 2018; rates for the upcoming plan year, however, have not yet been released.

Table 1		
Health Insurance		
State Employee and Employer Monthly Contributions		
Calendar Year 2017		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$ 40.00	\$ 550.00
Employee Plus One Adult	119.00	1,130.00
Employee Plus One Child	101.00	734.00
Family	221.00	1,238.00
<u>Preferred Provider Organization (PPO)</u>		
Employee	102.00	559.00
Employee Plus One Adult	215.00	1,182.00
Employee Plus One Child	144.00	791.00
Family	251.00	1,379.00
<u>Health Spending Account (HSA) Option</u>		
Employee	20.00	432.00 <u>1/</u>
Employee Plus One Adult	60.00	891.00 <u>1/</u>
Employee Plus One Child	51.00	624.00 <u>1/</u>
Family	111.00	979.00 <u>1/</u>

1/ Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.

Table 2

**Dental Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2017**

	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>DHMO</u>		
Employee	\$4.03	\$4.96
Employee + 1 Adult	8.06	9.92
Employee + 1 Child	7.59	9.92
Family	13.27	13.70
<u>PPO</u>		
Employee	30.98	4.96
Employee + 1 Adult	65.71	9.92
Employee + 1 Child	50.56	9.92
Family	104.56	13.70

(Please see the Health Insurance Trust Fund section in the ADOA narrative for more details on overall HITF balances.)

In addition to health and dental insurance, the following items are components of an agency's Employee Related Expenditures.

Employer Contribution Rates — Table 3 provides a list of budgeted state employer contribution rates for state employee benefits during FY 2018. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, these rates are calculated as a percent of Personal Services. Except as noted, the budget does not include funding for the changes in rates.

Life Insurance - \$17.94 per employee per year, unchanged from the FY 2017 rate.

Unemployment Insurance - 0.10% of Personal Services for each agency, unchanged from the FY 2017 rate.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2017 rate. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)

Table 3

FY 2018 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$17.94
Unemployment Insurance	0.10%
Personnel Division Pro Rata	0.86%
Disability (Arizona State Retirement System)	0.16%
Disability (Public Safety Personnel Retirement System)	2.33%
Disability (Corrections Officer Retirement Plan)	0.28%
Information Technology Planning	0.20%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$127,500)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
1/ See Consolidated Retirement Report section for contribution rates.	

- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Disability Insurance - For Arizona State Retirement System (ASRS) employees, the employer pays 0.16% of Personal Services for disability insurance, an increase of 0.02% from the FY 2017 rate of 0.14%. The employee rate will also increase to 0.16%.

For PSPRS employees, the employer-only disability insurance rate will increase to 2.33% in FY 2018, an increase of 0.41% from the FY 2017 rate of 1.92%. For CORP employees, the employer-only rate is 0.28%, increased slightly from the FY 2017 rate of 0.27%.

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2017 rate. The government information technology review function in ADOA's budget is funded from an assessment on the payroll of all state agencies except the Universities.

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 2017 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Workers' Compensation - The rates calculated by ADOA vary by individual agency and have changed from the FY 2017 workers' compensation rates. ADOA estimates the

average statewide rate is 0.78% in FY 2018, a slight decrease from the FY 2017 rate of 0.79%. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses. *(Please see the ADOA narrative for more details.)*

Federal Insurance Contributions Act (FICA) - Social Security taxes are paid at a rate of 6.20% up to \$127,500 of an employee's salary, an increase from the previous maximum of \$118,500. The rate is unchanged from FY 2017.

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 2017. Effective January 1, 2013, the federal Affordable Care Act imposed an additional 0.9% Medicare withholding on employees for the amount of salaries above \$200,000. Employees will continue to be withheld at 1.45% for salaries below \$200,000. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

State Retirement Systems - There are 5 state employee retirement systems -- ASRS, the Public Safety Personnel Retirement System (PSPRS), the Corrections Officers Retirement Plan (CORP), the Elected Officials Retirement Plan (EORP), and the Elected Officials Defined Contribution (EODC) System. In addition, the Universities operate their own defined contribution plan. FY 2018 rates as determined by the state's retirement systems have changed from the FY 2017 rates. *(Please see the Consolidated Retirement Report for more information.)*

The FY 2018 budget adds a total of \$17,550,000 in appropriated funding for increased costs in employer retirement contributions in 5 agencies, primarily for non-ASRS rate changes, appropriated within their respective budgets:

- \$8,377,100 GF for the Arizona Department of Corrections (ADC)
- \$641,900 OF for the Arizona Game and Fish Department
- \$1,011,200 OF for the Department of Juvenile Corrections (DJC)
- \$117,200 OF for the State Parks Board
- \$2,612,400 GF and \$4,790,200 OF for the Department of Public Safety (DPS)

(Please see the ADC, Game and Fish, DJC, Parks, and DPS narratives for more detail on these increases. Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.)

Other Operating Expenditures

The following items are included in agencies' Other Operating Expenditures.

Risk Management — Individual agency budgets' Other Operating Expenditures include funding to pay the Risk Management charges billed to agencies by the ADOA Risk Management Program. The billings vary by individual agency and have changed from the budgeted FY 2017 rates.

Section 147 appropriates General Fund monies to, and ex-appropriates General Fund monies from, 11 agencies, along with a \$137,000 OF appropriation to the Supreme Court. The net impact of the General Fund changes is \$0 statewide. *(Please see the Risk Management Charges table following this section for more details on overall charges and the FY 2018 Crosswalk for details on changes from FY 2017.)*

Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state.

Attorney General — Section 149 outlines \$1,798,500 in charges to selected state agencies for Attorney General services, a reduction of \$(11,000) from the original FY 2017 amount. In addition, Section 4 revises the original FY 2017 amount downward by \$(11,000) as well. *(Please see the Attorney General narrative for details.)*

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges for both state-owned and privately-owned space, lease-purchase payments, and privatized lease-to-own (PLTO) payments for certain buildings.

Rent charges in state-owned office space will remain at \$13.08/square foot, with the charge for state-owned storage space remaining at \$4.74/square foot. These rates are based upon usable square feet.

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please refer to Statewide Adjustments above and the Rent, Lease-Purchase, and PLTO schedules in the Capital Outlay section for more details.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will expend \$100,000,000 in FY 2018 for FY

2017 obligations. Agencies are permitted to make “administrative adjustments” for expenditures obligated in FY 2017 but for which the state was unbilled until FY 2018. An agency’s administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$100,000,000 is unchanged from the budgeted FY 2017 total of \$100,000,000.

The budgeted FY 2017 estimate of \$100,000,000 is an increase of \$30,000,000 from the originally-budgeted administrative adjustment total. This amount is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies’ historical trends.

Reversions — The budget assumes that state agencies will revert \$(140,682,500) of FY 2018 appropriations back to the General Fund because the agencies will not spend their entire appropriation. This amount is an increase of \$682,500 from the budgeted FY 2017 total of \$(140,000,000).

The final budgeted FY 2017 estimate is \$(140,000,000), compared to the originally-budgeted FY 2017 reversionment total of \$(110,682,500).

Budget Format — The format governs how an agency’s appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

Lump Sum - The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review.

Lump Sum with Special Line Items - The appropriation for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include FTE Positions. Agencies are typically permitted to transfer funding between line items with ADOA approval but without further Legislative Branch review. Footnotes may require JLBC review, however, prior to transfers between certain line items.

90/10 Agencies — The following 28 regulatory agencies are called “90/10” agencies for the fact that these agencies retain 90% of their revenues and deposit the other 10% into the General Fund:

Arizona State Board of Accountancy
Acupuncture Board of Examiners
Board of Athletic Training
Board of Barbers
Board of Behavioral Health Examiners
State Board of Chiropractic Examiners
Registrar of Contractors
Board of Cosmetology
State Board of Dental Examiners
State Board of Funeral Directors and Embalmers
Board of Homeopathic and Integrated Medicine Examiners
Board of Massage Therapy
Arizona Medical Board
Naturopathic Physicians Medical Board
State Board of Nursing
Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
Board of Occupational Therapy Examiners
State Board of Dispensing Opticians
State Board of Optometry
Arizona Board of Osteopathic Examiners in Medicine and Surgery
Arizona State Board of Pharmacy
Board of Physical Therapy
State Board of Podiatry Examiners
State Board for Private Postsecondary Education
State Board of Psychologist Examiners
Board of Respiratory Care Examiners
State Board of Technical Registration
Arizona State Veterinary Medical Examining Board

**GENERAL FUND SALARY ADJUSTMENTS FOR STATE EMPLOYEES SINCE FY 2008
(Shown in Nominal Dollars)**

Fiscal Year	General Salary Adjustments					Additional Increases for Selected Classes		
	Dollars Appropriated	Effective Date	Annual Cost	% Salary Adjustment	% Performance Adjustment	Dollars Appropriated	Effective Date	Annual Cost
FY 2008	\$68,755,000	July 1	\$68,755,000 <u>1/</u>	3.0%	0.25%	\$9,149,200	July 1	\$9,149,200 <u>2/</u>
FY 2009	\$0	NA	\$0	-0-	-0-	\$0	NA	\$0
FY 2010	\$0	NA	\$0	-0-	-0-	\$0	NA	\$0
FY 2011	\$(33,464,400) <u>3/</u>	July 1	\$(33,464,400)	-2.30% <u>4/</u>	-2.75% <u>4/</u>	\$0	NA	\$0
FY 2012	\$(3,390,700) <u>5/</u>	July 1	\$(3,390,700)	-0- <u>5/</u>	-0-	\$0	NA	\$0
FY 2013	\$16,633,400 <u>6/</u>	Sept 29	\$23,500,000	5.00% <u>6/</u>	-0-	\$0	NA	\$0
FY 2014	\$0	NA	\$0	0.00%	-0-	\$0	NA	\$0
FY 2015	\$0	NA	\$0	0.00%	-0-	\$3,300,000	July 1	\$3,300,000 <u>7/</u>
FY 2016	\$0	NA	\$0	0.00%	-0-	\$0	NA	\$0
FY 2017	\$0	NA	\$0	0.00%	-0-	\$4,696,400	Varies	\$4,791,700 <u>8/9/</u>
FY 2018	\$0	NA	\$0	0.00%	-0-	\$97,700	January 1	\$195,300 <u>10/</u>

- 1/ Provides funding for the equivalent of a 3.0% adjustment to the Personal Services Base in the FY 2008 JLBC Baseline.
- 2/ Funds additional adjustments above the 3.0% pay adjustment and 0.25% performance adjustment for the General Accounting Office, Assistant Attorney Generals, supervisor correctional officers at ADC, security officers at the Arizona State Hospital, officers at DJC, and sworn officers at DPS.
- 3/ Represents General Fund savings from the pay reduction that were budgeted in FY 2011, along with uncaptured furlough savings realized in FY 2011 during the FY 2012 budget process.
- 4/ Represents 6 furlough days (2.3%) except for certain exempted positions and a (2.75)% pay reduction. Where possible, the (2.75)% reduction was intended to eliminate the FY 2007 and FY 2008 Performance Adjustments. The furlough was originally authorized for FY 2011 and FY 2012 only, while the salary reduction was permanent.
- 5/ Represents General Fund savings from the prior enacted mandatory 6 day furlough, less additional funding to restore the furlough for several smaller agencies. The FY 2011 General Appropriation Act assumed a fixed level of General Fund savings associated with the furlough - savings were actually \$3.5 million greater and were reflected in the FY 2012 budget. Laws 2011, Chapter 26 eliminated one of the 6 mandatory furlough days in FY 2011 and all furlough days in FY 2012, but the budget did not restore any of the associated funding except for \$158,800 from the General Fund to several smaller agencies in FY 2012.
- 6/ Originally represented a one-time critical retention payment to state employees in FY 2013. The payments were made to non-university state employees who were uncovered on the effective date of September 29, 2012, and were equal to 5% of an employee's annual salary level prorated for the remainder of the fiscal year, increasing an employee's annual salary by an effective rate of 3.75%. This adjustment included payments to employees who converted from covered to uncovered status as a result of the 2012 omnibus personnel bill (Laws 2012, Chapter 321). The FY 2014 budget subsequently made the 5% adjustment permanent.
- 7/ Funds a 2.0% pay increase for all employees at the Arizona Department of Public Safety (DPS).
- 8/ Funds a 3.0% pay increase for all sworn officers and civilian staff within the Highway Patrol division at DPS, effective July 1, 2016.
- 9/ Funds the first half-year of a 1.5% pay increase for all Supreme Court, Court of Appeals, and Superior Court Justices. The pay raise became effective on January 1, 2017 and will be followed by another 1.5% increase effective on January 1, 2018.
- 10/ Funds the first half-year of a second 1.5% pay increase for all Supreme Court, Court of Appeals, and Superior Court Justices. The second year pay raise becomes effective January 1, 2018.

SALARY ADJUSTMENTS FOR ELECTED OFFICIALS

	Jan. 1, 2002 *	Jan. 1, 2007 *	Jan. 1, 2009	Jan. 1, 2018
Governor	\$ 95,000	\$ 95,000	\$ 95,000	\$ 95,000
Secretary of State	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Treasurer	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Attorney General	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Superintendent of Public Instruction	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000
Corporation Commissioners	\$ 79,500	\$ 79,500	\$ 79,500	\$ 79,500
Mine Inspector	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Supreme Court Chief Justice	\$ 129,150	\$ 145,294	\$ 160,000	\$ 164,800
Other Supreme Court Justices	\$ 126,525	\$ 142,341	\$ 155,000	\$ 159,650
Appellate Judges	\$ 123,900	\$ 139,388	\$ 150,000	\$ 154,500
Superior Court Judges	\$ 120,750	\$ 135,844	\$ 145,000	\$ 149,400
Legislators	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000

* There were no changes in elected officials' salaries between January 1, 2002 and January 1, 2007 and January 1, 2007 and January 1, 2009.

AGENCY DETAIL AND ALLOCATIONS

DETAILED LIST OF GENERAL FUND CHANGES BY AGENCY

	FY 2017 GF 1/ Baseline	FY 2017 Changes	FY 2017 GF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 GF Enacted Budget
OPERATING SPENDING CHANGES						
DOA - Arizona Department of Administration	10,264,500		10,264,500			10,365,300
DOA - Statewide Adjustments					100,800	
APF - Automation Projects Fund/ADDA	14,881,600		14,881,600			12,300,000
APF - ADE Automation (One-time)				(7,300,000)	7,300,000	
APF - DCS Automation (Baseline @ \$5 M)				418,400	OF - \$6.1 M	
APF - DOR Automation					OF - \$11 M	
APF - Remove DOA Procurement (One-time)				(3,000,000)		
OAH - Office of Administrative Hearings	860,500		860,500			870,900
OAH - Statewide Adjustments					10,400	
AAM - Commission of African-American Affairs	125,000		125,000			125,800
AAM - Statewide Adjustments					800	
AGR - Department of Agriculture	9,162,700		9,162,700			9,563,700
AGR - Statewide Adjustments					146,400	
AGR - Nuclear Emergency Management Fund Shift					(198,400)	
AGR - Meat and Poultry Inspector					85,000	
AGR - Veterinarian/Inspectors					368,000	
AXS - AHCCCS	1,750,941,400		1,750,941,400			1,775,264,100
AXS - Statewide Adjustments					503,100	
AXS - Formula Changes				44,038,900		
AXS - Adult Emergency Dental					OF - \$1.5 M	
AXS - Prop 206 Minimum Wage Increase					9,650,700	
AXS - Prescription Drug Review Initiative					OF - \$221k	
AXS - Prescription Drug Rebate Shift					(30,000,000)	
AXS - Occupational Therapy					130,000	
ATT - Attorney General	24,664,800		24,664,800			26,344,200
ATT - Statewide Adjustments					179,400	
ATT - Criminal Division (Through FY 2020)					1,500,000	
CHA - State Board for Charter Schools	1,185,200		1,185,200			1,200,600
CHA - Statewide Adjustments					15,400	
DCS - Department of Child Safety	379,179,400		379,179,400			379,790,800
DCS - Statewide Adjustments					311,400	
DCS - Removal of Backlog Privatization Monies					(2,700,000)	
DCS - Adoption Services					2,000,000	
DCS - Financial Assistance to Kinship Caregivers					1,000,000	
ACA - Arizona Commerce Authority	21,800,000		21,800,000			21,800,000
CCO - Arizona Community Colleges	54,312,700		54,312,700			55,086,500
CCO - Formula Changes				657,700	(133,900)	
CCO - Gila County Workforce Development					250,000	
COR - Corporation Commission	2,611,600		2,611,600			621,500
COR - Statewide Adjustments					9,900	
COR - Remove One-time Automation Funding				(2,000,000)		
ADC - Department of Corrections	1,046,682,600		1,046,689,500			1,067,624,800
ADC - Statewide Adjustments					12,155,400	
ADC - Named Claimants		6,900				
ADC - Annualize 1,000 Medium Security Beds				7,090,800	(3,965,400)	
ADC - Remove One-time Equipment Costs				(108,200)		
ADC - Inmate Health Care - Population Adjustment					1,474,600	
ADC - Retirement Adjustment					8,377,100	
ADC - Inmate Health Care - Increased Medicaid Savings					(2,500,000)	
ADC - Recidivism Reduction Initiatives					517,900	
ADC - Kingman Prison Refinance Savings					(2,100,000)	
CF - County Funding	14,000,500		14,000,500			15,650,700
CF - One-time Additional County Distribution				(8,000,000)	8,000,000	
CF - Base \$550k County Distribution to Mohave/Yavapai/Pinal					1,650,200	
SDB - Arizona State Schools for the Deaf and the Blind	21,378,100		21,378,100			21,932,000
SDB - Statewide Adjustments					553,900	

	FY 2017 GF 1/ Baseline	FY 2017 Changes	FY 2017 GF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 GF Enacted Budget
OEC - Office of Economic Opportunity	1,068,700		1,068,700			484,100
OEC - Remove One-time Small Water Systems Fund Deposit				(500,000)		
OEC - Remove One-time Regulatory Cost Model Funding				(84,600)		
DES - Department of Economic Security	530,124,400		538,272,200			586,110,300
DES - Statewide Adjustments					374,300	
DES - DD Caseload/Inflation Funding				18,644,500		
DES - Remove One-time Domestic Violence Shelter Funding				(100,000)	OF - \$100k	
DES - Remove One-time ABLA Account Funding				(240,000)		
DES - Adult Protective Services Staff					OF - \$2.0 M	
DES - Early Intervention Referral and Cost Increase					2,000,000	
DES - Prop 206 Minimum Wage Increase		8,147,800			23,307,100	
DES - Additional One-Time Prop 206 Funding					10,000,000	
DES - One-Time DD Room and Board					2,000,000	
BOE - State Board of Education	1,094,000		1,094,000			1,153,600
BOE - Statewide Adjustments					10,800	
BOE - Shift From ADE					48,800	
ADE - Arizona Department of Education	4,069,375,800		4,086,457,000			4,226,958,400
ADE - Statewide Adjustments					135,400	
ADE - Additional State Aid (FY 2017 Supplemental)		17,081,200				
ADE - Base Adjustment				4,857,400		
ADE - Enrollment Growth				87,526,600		
ADE - Higher Average Cost Per Pupil				21,000,000	(3,357,100)	
ADE - Inflation				79,519,800		
ADE - New Construction				(58,082,100)		
ADE - Homeowner's Rebate				6,852,200		
ADE - Land Trust Distribution				(16,032,700)	(58,900)	
ADE - Eliminate Multi-Site Charters Small School Weight				(18,100,000)		
ADE - Eliminate JTED Funding For HS Graduates				(1,800,000)		
ADE - District Sponsored Charter Phase-Out				(1,148,000)		
ADE - Eliminate Current Year Funding				(31,000,000)		
ADE - Empowerment Scholarship Accounts				818,800		
ADE - One-time Geographic Literacy Funding				(100,000)	100,000	
ADE - College Test Incentives (Previously Enacted)				5,000,000		
ADE - 1.06% Teacher Salary Increase					34,000,000	
ADE - Results-Based Funding					37,600,000	
ADE - Early Literacy Funding					8,000,000	
ADE - JTED Completion Grants					1,000,000	
ADE - Arizona Broadband for Education Initiative					OF - \$3.0 M	
ADE - School Resource Officers					500,000	
ADE - One-Time Teacher Professional Development Pilot					300,000	
ADE - Jobs for Arizona's Graduates					100,000	
ADE - Move ISA Funding to Board of Education					(48,800)	
EMA - Department of Emergency & Military Affairs	12,619,500		12,619,500			11,238,300
EMA - Statewide Adjustments					43,200	
EMA - Nuclear Emergency Management Fund Shift					(1,424,400)	
DEQ - Department of Environmental Quality	2,823,600		2,823,600			2,823,600
OEO - Governor's Office of Equal Opportunity	189,100		189,100			191,900
OEO - Statewide Adjustments					2,800	
EQU - State Board of Equalization	643,000		643,000			646,400
EQU - Statewide Adjustments					3,400	
EXE - Board of Executive Clemency	952,600		952,600			963,500
EXE - Statewide Adjustments					10,900	
DFI - Dept of Financial Institutions	2,978,200		2,978,200			2,201,000
DFI - Statewide Adjustments					47,800	
DFI - Fund Shift Appraisal Fund to General Fund					675,000	
DFI - Fund Shift General Fund to Financial Services Fund					(1,500,000)	
FOR - Department of Forestry and Fire Management	10,442,800		10,442,800			11,922,500
FOR - Statewide Adjustments					67,200	
FOR - Deputy Fire Marshal					100,000	
FOR - Post-Release Fire Crew					1,465,100	
FOR - Fire Communication Improvements					169,900	
FOR - Remove One-time Fire Management Software Costs				(20,000)		
FOR - Eliminate One-time Inmate Fire Crew Carriers Funding				(190,000)		
FOR - Eliminate One-time Wildland Fire Engines Funding				(112,500)		

	FY 2017 GF <u>1/</u> Baseline	FY 2017 Changes	FY 2017 GF Revised	FY 18 Baseline <u>2/</u> Above FY 17	FY 2018 Changes	FY 2018 GF Enacted Budget
GAM - Department of Gaming	1,979,500		1,979,500			1,779,500
GAM - Eliminate One-time Breeder's Award Fund Deposit				(200,000)	OF - \$250k	
GOV - Office of the Governor	6,849,900		6,849,900			8,871,400
GOV - Statewide Adjustments					71,500	
GOV - Foster Youth Education Success Program (One-time)				1,500,000		
GOV - School Leadership Training					250,000	
GOV - Computer Science Initiative					200,000	
OSP - Gov's Office of Strategic Planning & Budgeting	1,994,000		1,994,000			2,014,600
OSP - Statewide Adjustments					20,600	
DHS - Department of Health Services	86,551,700		86,553,600			87,669,400
DHS - Statewide Adjustments					934,700	
DHS - Named Claimants		1,900				
DHS - Reduce Operating Budget					(2,800,000)	
DHS - Increase Arizona State Hospital (ASH) Funding					2,800,000	
DHS - Renal Transplant Drugs					183,000	
AZH - Arizona Historical Society	2,722,900		2,722,900			3,179,800
AZH - Statewide Adjustments					456,900	
PAZ - Prescott Historical Society	824,500		824,500			840,200
PAZ - Statewide Adjustments					15,700	
DOH - Department of Housing	811,400		811,400			830,000
DOH - Statewide Adjustments					18,600	
IND - Independent Redistricting Commission	1,115,300		1,115,300			0
IND - Work Completed					(1,115,300)	
INS - Department of Insurance	5,824,300		5,824,300			5,878,300
INS - Statewide Adjustments					54,000	
SPA - Judiciary - Supreme Court	19,219,500		19,219,500			18,812,000
SPA - Statewide Adjustments					95,500	
SPA - 2 New Supreme Court Justices				425,400		
SPA - 1.5% Judicial Pay Raise				20,300		
SPA - IT Funding (One-time)				(948,700)		
COA - Judiciary - Court of Appeals	14,280,400		14,280,400			14,723,000
COA - Statewide Adjustments - Division I					102,100	
COA - Statewide Adjustments - Division II					42,800	
COA - 1.5% Judicial Pay Raise				61,700		
COA - Court of Appeals - Division I Staff					148,800	
COA - Court of Appeals - Division II Staff					87,200	
SUP - Judiciary - Superior Court	79,517,800		79,517,800			77,183,700
SUP - Statewide Adjustments					(50,800)	
SUP - Remove One-time Dependency Surge Funding				(3,000,000)		
SUP - 1.5% Judicial Pay Raise				111,000		
SUP - Maricopa County Court Ordered Removals					75,000	
SUP - Special Water Master Increase					30,700	
SUP - Adult Standard Probation Growth					500,000	
DJC - Department of Juvenile Corrections	24,180,400		24,180,400			19,549,800
DJC - Statewide Adjustments					369,400	
DJC - Spending Reduction					(5,000,000)	
LAN - State Land Department	12,491,400		12,715,900			12,365,900
LAN - Statewide Adjustments					(350,000)	
LAN - CAP Fees		224,500		224,500		
Legislature						
AUD - Auditor General	18,066,500		18,066,500			18,688,800
AUD - Statewide Adjustments					249,800	
AUD - Remove One-time Audit Funding				(200,000)		
AUD - Special Investigative Unit					572,500	
HOU - House of Representatives	13,201,500		13,201,500			13,419,100
HOU - Statewide Adjustments					217,600	
JLBC - Joint Legislative Budget Committee	2,488,300		2,488,300			2,513,800
JLBC - Statewide Adjustments					25,500	

	FY 2017 GF 1/ Baseline	FY 2017 Changes	FY 2017 GF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 GF Enacted Budget
LEG - Legislative Council	8,215,400		8,215,400			8,278,400
LEG - Statewide Adjustments					63,000	
SEN - Senate	9,408,500		9,408,500			9,548,100
SEN - Statewide Adjustments					139,600	
MIN - State Mine Inspector	1,212,500		1,212,500			1,226,800
MIN - Statewide Adjustments					14,300	
NAV - Arizona Navigable Steam Adjudication Comm.	124,000		124,000			125,500
NAV - Statewide Adjustments					1,500	
POS - Commission for Postsecondary Education	1,396,800		1,396,800			1,881,800
POS - College Readiness					235,000	
POS - MSSE Teacher Loan Forgiveness Program Increase					250,000	
DPS - Department of Public Safety	121,195,700		121,195,700			109,614,200
DPS - Statewide Adjustments					959,600	
DPS - Remove One-time Sexual Assault Kit Testing Funding				(500,000)		
DPS - Remove One-time Border Strike Task Force Funding				(14,600,000)		
DPS - Retirement Adjustment					2,612,400	
DPS - Eliminate Backlog of Untested Sexual Assault Kits (\$1.2 M)					Redirect GF	
DPS - Remove One-Time Consultant					(53,500)	
PSP - Public Safety Personnel Retirement System	6,000,000		6,000,000			6,000,000
RAD - Radiation Regulatory Agency	1,563,100		1,563,100			787,600
RAD - Statewide Adjustments					14,200	
RAD - Nuclear Emergency Management Fund Shift					(789,700)	
REA - State Real Estate Department	2,994,900		2,994,900			3,028,000
REA - Statewide Adjustments					33,100	
REV - Department of Revenue	31,998,300		31,998,300			31,291,300
REV - Statewide Adjustments					1,293,000	
REV - Remove One-time Military Withholding Refunds				(2,000,000)		
SFB - School Facilities Board	228,094,400		228,094,400			292,286,600
SFB - Statewide Adjustments					14,000	
SFB - New School Construction (Site Conditions)				1,000,000		
SFB - New School Construction (Benson USD)				(1,174,600)		
SFB - New Construction (FY 18 Starts)					62,929,800	
SFB - Lease-Purchase Changes				(244,900)		
SFB - Remove One-time Credit Enhancement Funding				(500,000)		
SFB - Remove One-time Building Renewal Grants				(15,000,000)		
SFB - New Building Renewal Grants					17,167,900	
SOS - Secretary of State	14,969,200		14,969,200			12,190,100
SOS - Statewide Adjustments					105,400	
SOS - No Election in FY 2018				(3,384,500)		
SOS - One-Time Operating Funding					500,000	
TAX - State Board of Tax Appeals	266,600		266,600			268,300
TAX - Statewide Adjustments					1,700	
TOU - Office of Tourism	7,112,000		7,112,000			7,112,000
DOT - Department of Transportation	50,400		50,400			50,500
DOT - Statewide Adjustments					100	
TRE - State Treasurer	1,205,100		1,205,100			1,205,100
OTR - Governor's Office on Tribal Relations	57,500		57,500			58,000
OTR - Statewide Adjustments					500	
UNI - Universities						
UNI - Arizona Board of Regents	21,928,400		21,928,400			6,909,300
UNI - Statewide Adjustments					22,100	
UNI - Allocate Performance Funding to Universities Budgets					(5,000,000)	
UNI - Allocate Financial Aid Trust Funding to Universities Budgets					(10,041,200)	
UNI - ASU - Tempe/DPC	253,651,900		253,651,900			267,987,600
UNI - Statewide Adjustments					3,070,900	
UNI - Refinance Adjustment				2,290,700		
UNI - Remove One-time Additional Resources				(7,000,000)		

	FY 2017 GF <u>1/</u> Baseline	FY 2017 Changes	FY 2017 GF Revised	FY 18 Baseline <u>2/</u> Above FY 17	FY 2018 Changes	FY 2018 GF Enacted Budget
UNI - Allocate Performance Funding to Universities Budgets					2,348,800	
UNI - Allocate Financial Aid Trust Funding to Universities Budgets					5,985,800	
UNI - Capital/Operational Funding (\$1 M Freedom School Allocation)					7,639,500	
UNI - ASU - East Campus	22,523,100		22,523,100			22,757,200
UNI - Statewide Adjustments					68,800	
UNI - Allocate Performance Funding to Universities Budgets					165,300	
UNI - ASU - West Campus	29,222,600		29,222,600			29,514,200
UNI - Statewide Adjustments					100,700	
UNI - Allocate Performance Funding to Universities Budgets					190,900	
UNI - Northern Arizona University	105,227,000		105,227,000			108,612,800
UNI - Statewide Adjustments					117,300	
UNI - Refinance Adjustment				1,649,700		
UNI - Remove One-time Additional Resources				(4,000,000)		
UNI - Allocate Performance Funding to Universities Budgets					1,090,000	
UNI - Allocate Financial Aid Trust Funding to Universities Budgets					1,326,000	
UNI - Capital/Operational Funding					3,202,800	
UNI - UA - Main Campus	197,059,600		197,059,600			199,600,900
UNI - Statewide Adjustments					1,237,300	
UNI - Refinance Adjustment				270,900		
UNI - Remove One-time Additional Resources				(8,000,000)		
UNI - Geological Survey (SB 1184)					941,000	
UNI - Allocate Performance Funding to Universities Budgets					1,205,000	
UNI - Allocate Financial Aid Trust Funding to Universities Budgets					2,729,400	
UNI - Capital/Operational Funding (\$1 M Freedom School Allocation)					4,157,700	
UNI - UA - Health Sciences Center	68,859,800		68,859,800			69,437,700
UNI - Statewide Adjustments					577,900	
VSC - Department of Veterans' Services	6,054,100		6,054,100			6,115,800
VSC - Statewide Adjustments					61,700	
WAT - Department of Water Resources	13,012,600		13,012,600			16,001,900
WAT - Statewide Adjustments					130,900	
WAT - Water Protection Fund Deposit				(250,000)	250,000	
WAT - Drought Contingency Plan					2,000,000	
WAT - General Streams Adjudications Personnel					477,000	
WAT - Legal Support for Adjudications & CO River					121,300	
WAT - GIS Personnel					93,800	
WAT - Active Management Area Personnel					166,300	
OTH - Other						
OTH - FY 17 Supplemental/Ex-Appropriation	17,305,700	(17,305,700)	0	(17,305,700)		0
OTH - Debt Service Payments	84,117,400		84,117,400	(2,300)		84,115,100
OTH - Civic Center Debt Service	20,449,000		20,449,000	2,050,000		22,499,000
OTH - Rio Nuevo Distribution	10,000,000		10,000,000			10,000,000
OTH - Administrative Adjustments	100,000,000		100,000,000			100,000,000
OTH - Revertments	(140,000,000)		(140,000,000)	20,000,000	(20,682,500)	(140,682,500)
OTH - Executive Reductions/Efficiency Savings	0		0	0	(10,000,000)	(10,000,000)
OTH - Unallocated HITF One-Time Employer Premium	0		0	0	15,800	15,800
TOTAL - OPERATING SPENDING CHANGES	9,521,757,200	8,156,600	9,529,913,800	79,800,500	207,833,200	9,809,390,900
CAPITAL SPENDING						
ADDA Building Renewal	8,000,000		8,000,000	(8,000,000)	5,700,000	5,700,000
Veterans Home - Flagstaff	10,000,000		10,000,000	(10,000,000)		0
State Highway Transportation Funding	56,500,000		56,500,000	(56,500,000)		0
Local HURF Transportation Funding	30,000,000		30,000,000	(30,000,000)	OF - \$30 M	OF - \$30 M
TOTAL - CAPITAL SPENDING	104,500,000	0	104,500,000	(104,500,000)	5,700,000	5,700,000
TOTAL - ALL SPENDING	9,626,257,200	8,156,600	9,634,413,800	(24,699,500)	213,533,200	9,815,090,900

	FY 2017 GF <u>1/</u> Baseline	FY 2017 Changes	FY 2017 GF Revised	FY 18 Baseline <u>2/</u> Above FY 17	FY 2018 Changes	FY 2018 GF Enacted Budget
REVENUE CHANGES						
Ongoing Revenue						
REV - Ongoing Revenue	9,377,013,700		9,377,013,700	269,434,700	37,000,900	9,683,449,300
REV - Inflation Index Personal Exemption	0		0		(6,821,400)	(6,821,400)
REV - Reduce Ongoing Judiciary Transfers	0		0		(400,000)	(400,000)
REV - Captive Insurance Fund	0		0		(100,000)	(100,000)
REV - Angel Investor Tax Credit	0		0		(833,300)	(833,300)
REV - Deposit Appraisal Fees Into General Fund	0		0		675,000	675,000
REV - Redirect NEMF Assessment to NEMF Fund	0		0		(2,503,100)	(2,503,100)
One-Time Revenue						
REV - Beginning Balance	284,015,000		284,015,000	(169,881,900)	56,843,400	170,976,500
REV - ADOA - Health Insurance Trust Fund Transfer	78,900,000		78,900,000	(78,900,000)		0
REV - ADOA - Automation Operations Fund Transfer	461,600		461,600	(461,600)		0
REV - Attorney General - Moody's Settlement	0		0		8,172,700	8,172,700
REV - AHCCCS - Prescription Drug Rebate Fund Transfer	0	30,000,000	30,000,000			0
REV - AHCCCS - Behavioral Health Fund Transfer	0	35,000,000	35,000,000			0
TOTAL - REVENUE CHANGES <u>3/</u>	9,740,390,300	65,000,000	9,805,390,300	20,191,200	92,034,200	9,852,615,700
ENDING BALANCE	114,133,100	56,843,400	170,976,500	44,890,700	(121,499,000)	37,524,800

1/ Represents original FY 2017 agency appropriations adjusted for revisions in the Universities.

2/ Represents FY 2018 Baseline cost above FY 2017 estimate.

3/ Represents all revenue changes, including fund transfers.

DETAILED LIST OF OTHER FUND CHANGES BY AGENCY

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
OPERATING SPENDING CHANGES						
SBA - State Board of Accountancy	1,937,000		1,937,000			2,042,200
SBA - Statewide Adjustments					17,800	
SBA - Administrative Services Officer					87,400	
ACU - Acupuncture Board of Examiners	178,500		178,500			185,500
ACU - Remove One-Time Rulemaking Funding				(3,000)		
ACU - Auditor General Findings and Recommendations					10,000	
ACU - Statewide e-Licensing System					Transfer	
DOA - Arizona Department of Administration	188,225,000		191,446,500			187,518,000
DOA - Statewide Adjustments					545,700	
DOA - Adjust Insurance Claims Related Exp. (Risk Mgmt)					683,700	
DOA - Adjust Insurance Claims Related Exp. (Worker's Comp)					671,100	
DOA - Increased Deductible on Risk Mgmt Claims					(3,526,100)	
DOA - Central Services Bureau Staffing Transfer					217,700	
DOA - Government Transformation Funding (Web Portal Fund)				(500,000)	1,000,000	
DOA - One-Time Funding Office of Grants and Fed. Resources					375,900	
DOA - Federal Reimbursement		3,221,500				
DOA - Remove One-time Telecommunications Projects				(175,000)		
APF - Automation Projects Fund/ADOA	47,774,700		44,774,700			55,761,900
APF - One-time ADE Automation				(7,300,000)	7,300,000	
APF - Non-Project Management ASET Funding				(12,098,400)	11,208,600	
APF - DES IT Security Projects				(1,294,700)	Non-Lapsing	
APF - DCS Automation (\$5 M in Baseline - Leg: \$11.1 M Total)				418,400	6,100,000	
APF - DOR IT Infrastructure					11,000,000	
APF - DOA HRIS Replacement					500,000	
APF - DPS Microwave Backbone					2,500,000	
APF - DPS Criminal Justice Information System					2,343,000	
APF - DEQ e-Licensing					3,200,000	
APF - Lottery IT System Replacement					3,497,400	
APF - Industrial Commission Claims Processing System					1,017,400	
APF - Automation Projects Non-Lapsing Authority ('17 into '18)					In Baseline	
APF - Statewide e-Licensing Project					595,500	
APF - Remove ADC Automation				(8,000,000)		
APF - Remove DOR Automation - Tax System Assessment				(1,000,000)		
APF - Reduce FY 2017 DOA Procurement Budget		(3,000,000)				
APF - Remove DOA Procurement				(12,000,000)		
AGR - Department of Agriculture	1,434,400		1,434,400			1,716,500
AGR - Statewide Adjustments					7,100	
AGR - Nuclear Emergency Management Fund Shift					275,000	
AXS - AHCCCS	215,012,700		278,238,500			361,527,400
AXS - Statewide Adjustments					8,100	
AXS - Acute Care Caseload/Inflation				110,595,200		
AXS - Increased Prescription Drug Rebate Spending					30,000,000	
AXS - CHIP Administrative Funding		4,000,000			4,000,000	
AXS - CHIP Services		59,225,800				
AXS - Adult Emergency Dental					1,490,500	
AXS - Prescription Drug Review Initiative					220,900	
AXS - Prop 206 Network Adequacy Study					200,000	
ART - Arizona Commission on the Arts	1,500,000		1,500,000			1,500,000
ART - One-Time BSF Funding				(1,500,000)	1,500,000	
BAT - Board of Athletic Training	119,100		119,100			120,600
BAT - Statewide Adjustments					1,500	
BAT - Statewide e-Licensing System					Transfer	
ATT - Attorney General	45,119,700		45,119,700			46,213,900
ATT - Statewide Adjustments					394,200	
ATT - Healthcare Fraud and Abuse Section Increase (CPCF)					700,000	
ATA - Automobile Theft Authority	5,295,500		5,295,500			5,301,400
ATA - Statewide Adjustments					5,900	
BAR - Board of Barbers	370,700		370,700			345,800
BAR - Statewide Adjustments					4,000	
BAR - Statewide e-Licensing System					Transfer	
BAR - Increased Accounting Costs					6,000	

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
BAR - Remove FY 17 One-Time Appropriation					(34,900)	
BHE - Board of Behavioral Health Examiners	1,759,100		1,759,100			1,777,800
BHE - Statewide Adjustments					18,700	
DCS - Department of Child Safety	178,139,100		178,139,100			180,610,300
DCS - Litigation Support					2,471,200	
BCE - State Board of Chiropractic Examiners	451,100		451,100			455,100
BCE - Statewide Adjustments					4,000	
ROC - Registrar of Contractors	12,165,400		12,165,400			12,268,400
ROC - Statewide Adjustments					103,000	
COR - Corporation Commission	26,325,600		26,325,600			26,652,400
COR - Statewide Adjustments					326,800	
ADC - Department of Corrections	50,470,000		50,470,000			51,553,200
ADC - Statewide Adjustments					5,500	
ADC - Remove One-time Radio Replacement Funding				(2,800,000)		
ADC - Bed Plan - Annualization of 1,000 Beds					3,877,700	
COS - Board of Cosmetology	1,805,200		1,805,200			1,864,500
COS - Statewide Adjustments					25,100	
COS - Retirement Expenses					34,200	
JUS - Arizona Criminal Justice Commission	6,445,400		6,445,400			9,202,600
JUS - Statewide Adjustments					7,200	
JUS - One-time Felony Pre-Trial Intervention Funding (SB 1278)					2,750,000	
SDB - AZ State Schools for the Deaf and the Blind	11,677,700		11,677,700			11,878,700
SDB - Statewide Adjustments					39,800	
SDB - Base Level Increase				161,200		
HEA - Comm for the Deaf & the Hard of Hearing	4,309,500		4,309,500			4,622,600
HEA - Statewide Adjustments					18,300	
HEA - Support Services for the Deaf-Blind					192,000	
HEA - Hearing Aid Assistance FTE					102,800	
DEN - Board of Dental Examiners	1,214,500		1,214,500			1,229,900
DEN - Statewide Adjustments					15,400	
DES - Department of Economic Security	293,945,000		293,945,000			294,107,700
DES - Statewide Adjustments					662,700	
DES - Domestic Violence Fund				(1,500,000)	1,500,000	
DES - Domestic Violence Funding (Health Lottery Fund)					100,000	
DES - Remove One-time DD Room and Board Funding				(600,000)		
DES - APS Caseload Growth Funding (Health Lottery Fund)				(2,000,000)	2,000,000	
DES - Maintain One-time Area Agencies on Aging Funding				(700,000)	700,000	
ADE - Arizona Department of Education	233,394,800		233,394,800			254,458,700
ADE - Statewide Adjustments					24,600	
ADE - Land Trust Distribution				15,480,400	58,900	
ADE - Rural Schools					2,600,000	
ADE - ESA Administration Funding					400,000	
ADE - One-Time Broadband Expansion					3,000,000	
ADE - Remove One-time Code Writers Pilot Funding				(500,000)		
EMA - Department of Emergency & Military Affairs	0		0			1,438,400
EMA - Nuclear Emergency Management Fund Shift					1,438,400	
DEQ - Department of Environmental Quality	76,334,900		76,334,900			80,222,400
DEQ - Statewide Adjustments					299,200	
DEQ - Maintain One-time WQARF Funding Increase				(2,948,600)	2,948,600	
DEQ - Interim WQARF Funding					3,588,300	
COL - Arizona Exposition and State Fair Board	11,613,300		11,613,300			12,153,300
COL - Statewide Adjustments					40,000	
COL - Marketing and Performances					500,000	
DFI - Dept of Financial Institutions	2,268,100		2,268,100			3,226,800
DFI - Statewide Adjustments					23,300	
DFI - Repeal of Board of Appraisal Fund (Chap. 334)					(815,100)	
DFI - Financial Institutions Division - Add 3 Examiners					250,500	
DFI - Financial Services Backfill GF					1,500,000	

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
EMB - Board of Funeral Directors and Embalmers	373,300		373,300			378,200
EMB - Statewide Adjustments					4,900	
EMB - Statewide e-Licensing System					Transfer	
FIS - Arizona Game and Fish Department	42,238,600		42,238,600			44,309,200
FIS - Statewide Adjustments					349,200	
FIS - Remove One-time Aquatic Invasive Species Funding				(375,000)		
FIS - Remove One-time Law Enforcement Watercraft Funding				(246,000)		
FIS - Curtailing Spread of Invasive Species					513,800	
FIS - One-Time Game and Fish Trucks					485,700	
FIS - One-Time Watercraft Safety Equipment					701,000	
FIS - Retirement Adjustment					641,900	
GAM - Department of Gaming	16,318,700		16,318,700			15,624,200
GAM - Statewide Adjustments					55,500	
GAM - One-Time Breeders' Award Fund Deposit					250,000	
GAM - Align Racing Division Appropriation w/ Reduced Assessment					(1,000,000)	
DHS - Department of Health Services	52,867,300		52,868,300			52,606,500
DHS - Statewide Adjustments					336,300	
DHS - Named Claimants		1,000				
DHS - Remove One-time ASH Equipment Funding				(230,100)		
DHS - One-time Alzheimer's Research Funding				(1,000,000)	1,000,000	
DHS - Remove One-time Pediatric Autoimmune Disorders Funding				(250,000)		
DHS - Severe Combined Immunodeficiency Testing					513,000	
DHS - One-Time Public Health Emergency - Emer. Serv. Fund					500,000	
DHS - State Loan Repayment Program - Emergency Services Fund					350,000	
DHS - ASH Equipment Repairs					320,000	
DHS - ASH Fund GF Backfill					(2,800,000)	
DHS - Operating - Indirect Cost Fund					1,000,000	
HOM - Board of Homeopathic & Integrated Medicine Examiners	103,000		103,000			89,000
HOM - Statewide Adjustments					1,700	
HOM - Align Appropriation With Revenues				(15,700)		
DOH - Department of Housing	318,500		318,500			323,200
DOH - Statewide Adjustments					4,700	
IND - Industrial Commission	19,881,300		19,881,300			20,110,400
IND - Statewide Adjustments					229,100	
IND - Claims Division Computer System					Transfer	
SPA - Judiciary - Supreme Court	29,208,800		29,208,800			30,313,800
SPA - Statewide Adjustments					205,000	
SPA - Remove Felony Pre-Trial Intervention Funding				(250,000)		
SPA - Court Appointed Special Advocate Fund Increase					400,000	
SPA - Courthouse Security Funding					750,000	
SUP - Judiciary - Superior Court	11,953,300		11,953,300			12,203,300
SUP - Drug Treatment Alternative to Prison (Health Lottery Fund)					250,000	
DJC - Department of Juvenile Corrections	15,379,800		15,379,800			16,655,100
DJC - Statewide Adjustments					264,300	
DJC - Technical Adjustment					(200)	
DJC - Retirement Adjustment					1,011,200	
LAN - State Land Department	4,797,100		5,022,100			7,250,000
LAN - Statewide Adjustments					2,900	
LAN - Legal Costs Supplemental		225,000				
LAN - Professional Service Contracts (One-time)					250,000	
LAN - Re-assess Federal Permits (One-time)					750,000	
LAN - Rights of Way Digitization (One-time)					450,000	
LAN - Survey Assets (One-time)					500,000	
LAN - Workflow Digitization (One-time)					500,000	
Legislature						
LEG - Auditor General	0		0			200,000
LEG - One-Time Funding For CAWCD Audit					200,000	
LEG - Legislative Council	250,000		250,000			0
LEG - Remove One-time Hearing Loop Funding				(250,000)	0	
LIQ - Department of Liquor Licenses & Control	3,007,400		3,007,400			3,047,500
LIQ - Statewide Adjustments					40,100	

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
LOT - Arizona State Lottery Commission	113,225,100		113,225,100			114,420,900
LOT - Statewide Adjustments					104,800	
LOT - Sales Adjustment				4,678,500		
LOT - IT System Replacement					Transfer	
LOT - Ticket Printing Cost Decrease					(3,587,500)	
MAS - Board of Massage Therapy	470,100		470,100			466,100
MAS - Statewide Adjustments					5,000	
MAS - IT Maintenance					6,000	
MAS - Remove One-time On-Line Renewal IT Funding				(15,000)		
MED - Arizona Medical Board	6,463,600		6,463,600			6,841,900
MED - Statewide Adjustments					57,900	
MED - Licensing and Investigations Staff and Consultants					320,400	
MIN - State Mine Inspector	112,900		112,900			112,900
NAT - Naturopathic Physicians Medical Board	184,200		184,200			183,000
NAT - Statewide Adjustments					2,800	
NAT - Remove One-time IT Equipment Funding				(4,000)		
NAV - Navigable Stream Adjudication Commission	200,000		200,000			200,000
NUR - State Board of Nursing	4,784,800		4,784,800			4,860,500
NUR - Statewide Adjustments					55,700	
NUR - Server Relocation Plan					20,000	
NCI - Nursing Care Inst. Administrators Board	445,400		445,400			426,500
NCI - Statewide Adjustments					5,100	
NCI - Remove FY 17 One-Time IT Appropriation					(24,000)	
NCI - Statewide e-Licensing System					Transfer	
OCC - Board of Occupational Therapy Examiners	170,700		170,700			183,700
OCC - Statewide Adjustments					3,000	
OCC - Statewide e-Licensing System					Transfer	
OCC - New Multi-Function Printer					10,000	
DIS - State Board of Dispensing Opticians	140,000		140,000			141,700
DIS - Statewide Adjustments					1,700	
DIS - Statewide e-Licensing System					Transfer	
OPT - State Board of Optometry	210,100		210,100			222,200
OPT - Statewide Adjustments					2,100	
OPT - Increasing Investigation Costs					10,000	
OPT - Statewide e-Licensing System					Transfer	
OST - AZ Board of Osteopathic Examiners in Medicine/Surgery	940,500		940,500			913,100
OST - Statewide Adjustments					7,600	
OST - Remove One-time Database/Licensing System Expenses				(39,000)		
OST - Increase in IT Software Expenses					4,000	
APC - Arizona Parents Comm. On Drug Education and Prevention	300,000		300,000			0
APC - Remove One-time Prevention Programs Funding				(300,000)		
SPB - Arizona State Parks Board	14,486,900		15,986,900			14,401,500
SPB - Statewide Adjustments					147,400	
SPB - Major Maintenance and Emergency Repairs		1,500,000				
SPB - Remove Federal Reduction Offset Funding				(1,500,000)		
SPB - Remove One-time Arizona Trail Funding				(150,000)		
SPB - Retirement Adjustment					117,200	
SPB - Additional Spending Authority					1,300,000	
PER - Personnel Board	375,300		375,300			378,100
PER - Statewide Adjustments					2,800	
PHA - Arizona State Board of Pharmacy	2,135,200		2,135,200			2,285,100
PHA - Statewide Adjustments					22,400	
PHA - Prescriber Report Cards					125,000	
PHA - SB 1460 - Certificate of Free Sale - Operating Budget					83,000	
PHA - Rule Writer					15,000	
PHA - One-Time Funding Leave Payout					24,500	
PHA - Remove One-time Software Upgrade Funding				(100,000)		
PHA - Remove One-time Leave Payout Funding				(20,000)		

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
PHY - Board of Physical Therapy Examiners	484,200		484,200			448,000
PHY - Statewide Adjustments					6,800	
PHY - Remove One-time Laptop Replacement Funding				(10,000)		
PHY - Remove One-time Online Licensing Software					(33,000)	
PHY - Statewide e-Licensing System					Transfer	
PIO - Arizona Pioneers' Home	6,174,600		6,174,600			6,605,600
PIO - Statewide Adjustments					113,000	
PIO - Nursing Wage Adjustment					318,000	
POD - State Board of Podiatry Examiners	148,400		148,400			149,700
POD - Statewide Adjustments					1,300	
POD - Statewide e-Licensing System					Transfer	
POS - Commission for Postsecondary Education	1,534,100		1,534,100			1,541,100
POS - Statewide Adjustments					7,000	
PRI - Board for Private Postsecondary Education	396,100		396,100			421,000
PRI - Statewide Adjustments					4,100	
PRI - Statewide e-Licensing System					Transfer	
PRI - Annual Leave Payout for Retiring Director					20,800	
PSY - State Board of Psychologist Examiners	475,400		475,400			480,600
PSY - Statewide Adjustments					5,200	
PSY - Statewide e-Licensing System					Transfer	
DPS - Department of Public Safety	171,389,100		171,389,100			174,648,700
DPS - Statewide Adjustments					1,668,000	
DPS - Remove One-time Border Strike Task Force Funding				(4,000,000)		
DPS - One-time Virtual Law Enforcement Training Funding				(2,100,000)		
DPS - 3% Non-Highway Patrol Civilian Pay Increase					1,201,400	
DPS - Microwave Backbone Replacement					Transfer	
DPS - Criminal Justice Information System					Transfer	
DPS - Retirement Adjustment					4,790,200	
DPS - Crime Lab Replacement Equipment					700,000	
DPS - In-Car Cameras					500,000	
DPS - Camera IT Infrastructure					500,000	
RAD - Radiation Regulatory Agency	848,100		848,100			1,646,400
RAD - Statewide Adjustments					8,600	
RAD - Nuclear Emergency Management Fund Shift					789,700	
RUC - Residential Utility Consumer Office	1,331,400		1,331,400			1,344,300
RUC - Statewide Adjustments					12,900	
RES - Board of Respiratory Care Examiners	300,300		300,300			323,300
RES - Statewide Adjustments					3,500	
RES - Statewide e-Licensing System					Transfer	
RES - Temporary Caseload Increase					19,500	
RET - Arizona State Retirement System	27,484,200		27,484,200			25,167,700
RET - Statewide Adjustments					283,500	
RET - Remove One-Time Automation Funding				(2,070,000)		
RET - Operating Budget Savings				(230,000)		
RET - Long-Term Disability Contract Savings				(300,000)		
REV - Department of Revenue	46,234,900		46,234,900			46,442,400
REV - Statewide Adjustments					157,500	
REV - ESA Administration Funding					50,000	
SOS - Secretary of State	3,681,500		3,681,500			3,695,500
SOS - Statewide Adjustments					14,000	
TEC - State Board of Technical Registration	2,916,400		2,916,400			2,233,700
TEC - Statewide Adjustments					29,300	
TEC - IT Maintenance					88,000	
TEC - Remove One-time E-Licensing System Funding				(800,000)		
DOT - Department of Transportation	373,809,500		373,815,900			390,625,600
DOT - Statewide Adjustments					4,555,300	
DOT - Named Claimants		6,400				
DOT - Maintain One-time Phoenix Area Freeway Lighting Funding				(1,500,000)	1,500,000	
DOT - Equipment Replacement					4,940,000	
DOT - Driver Safety and Livestock Control					2,400,000	
DOT - Grand Canyon Airport Projects					466,000	

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
DOT - Transfer Maintenance Recovery Fund to New Subaccount					(2,000,000)	
DOT - Create Appropriated Maintenance Recovery Subaccount					3,000,000	
DOT - Civil Rights Title VI Compliance					473,000	
DOT - Flagstaff Building Equipment					2,530,000	
DOT - Highway Maintenance Workload					451,800	
TRE - State Treasurer	5,018,100		5,018,100			5,379,400
TRE - Statewide Adjustments					36,300	
TRE - ESA Administration Funding					225,000	
TRE - Management Fund Increase					100,000	
UNI - Universities						
UNI - ASU - Tempe/DPC	593,126,200		593,126,200			598,306,200
UNI - Statewide Adjustments					5,180,000	
UNI - ASU - East Campus	44,303,300		44,303,300			44,436,200
UNI - Statewide Adjustments					132,900	
UNI - ASU - West Campus	45,790,500		45,790,500			45,945,500
UNI - Statewide Adjustments					155,000	
UNI - Northern Arizona University	147,283,300		147,283,300			147,362,100
UNI - Statewide Adjustments					78,800	
UNI - UA - Main Campus	405,141,100		405,141,100			408,320,500
UNI - Statewide Adjustments					3,179,400	
UNI - UA - Health Sciences Center	47,491,400		47,491,400			47,899,600
UNI - Statewide Adjustments					408,200	
VSC - Department of Veterans' Services	32,046,800		32,046,800			35,492,700
VSC - Statewide Adjustments					345,100	
VSC - Additional Spending Authority					4,000,000	
VSC - Remove Fiduciary Program Appropriation					(899,200)	
VME - Veterinary Medical Examining Board	651,900		651,900			590,000
VME - Statewide Adjustments					5,200	
VME - Remove One-time On-Line Licensing Software Funding					(67,100)	
WAT - Department of Water Resources	2,119,100		2,119,100			2,119,600
WAT - Statewide Adjustments					500	
OTH - Other						
OTH - FY 17 Supplemental/Ex-Appropriation	59,225,800	(59,225,800)	0	(59,225,800)		0
OTH - HITF One-Time Employer Premium					4,235,700	4,235,700
OTH - Unallocated Agency Relocation	576,800		576,800	(576,800)		0
OTH - Unallocated AFIS Cost Charges	3,000		3,000	(3,000)		0
OTH - Unallocated FY 2017 HITF Rate Reduction	(4,622,500)		(4,622,500)	4,622,500		0
TOTAL - OPERATING SPENDING CHANGES	\$3,775,990,900	5,953,900	\$3,781,944,800	\$5,409,000	173,564,800	\$3,954,964,700
CAPITAL SPENDING CHANGES						
Building Renewal						
Arizona Department of Administration	19,000,000		19,000,000	(19,000,000)	2,600,000	2,600,000
ADC Building Renewal	5,464,300		5,464,300			5,464,300
Game & Fish Department	530,000		530,000			530,000
Juvenile Corrections	1,100,000		1,100,000	(1,100,000)		0
Arizona Lottery Commission	118,100		118,100	4,100		122,200
Arizona Department of Transportation	4,232,300		4,232,300	(835,500)	1,335,500	4,732,300
New Projects						
ADOT Statewide Highway Construction	50,092,000		50,092,000	54,478,000		104,570,000
ADOT Bulk Storage Buildings			0		1,100,000	1,100,000
ADOT Safford Equipment Shop			0		4,000,000	4,000,000
ADOT Tempe Vehicle Storage			0		240,000	240,000
ADOT Controlled Access	94,382,000		94,382,000	7,517,000		101,899,000
ADOT Debt Service	126,141,000		126,141,000	(17,324,000)		108,817,000
ADOT Airport Planning	19,079,900		19,079,900	5,475,400		24,555,300
ADOT Vehicle Wash Systems	5,530,000		5,530,000	(5,530,000)		0
Local Transportation Funding			0		30,000,000	30,000,000
ADC - Door Locking Systems			0		1,450,000	1,450,000
Game and Fish Radio Towers	306,000		306,000	(306,000)		0
Game and Fish Boat Structures	874,900		874,900	(874,900)		0
Game and Fish Capital Projects	3,867,000		3,867,000	(3,867,000)		0
Arizona Exposition and State Fair	1,000,000		1,000,000	(1,000,000)	1,000,000	1,000,000

	FY 2017 OF 1/ Baseline	FY 2017 Changes	FY 2017 OF Revised	FY 18 Baseline 2/ Above FY 17	FY 2018 Changes	FY 2018 OF Enacted Budget
State Parks Board - Rockin River			0		4,000,000	4,000,000
State Parks Board Capital Projects	1,500,000		1,500,000	(1,500,000)	1,300,000	1,300,000
TOTAL - CAPITAL SPENDING CHANGES	\$333,217,500	0	\$333,217,500	\$16,137,100	47,025,500	\$396,380,100
TOTAL - OPERATING & CAPITAL SPENDING	\$4,109,208,400	5,953,900	\$4,115,162,300	\$21,546,100	220,590,300	\$4,351,344,800
FUND TRANSFERS						
APF/DOA - Automation Projects Fund - All For IT Projects						
APF/DOA - Automation Operations from ADOA	7,420,600		7,420,600	(5,920,600)	5,203,000	6,703,000
APF/DOA - State Web Portal from ADOA	5,650,000		5,650,000	(5,650,000)	5,065,600	5,065,600
APF/DOA - IT Fund from DOA	527,800		527,800	(527,800)	500,000	500,000
APF/DOA - Risk Management from ADOA	0		0	0	440,000	440,000
APF/DOA - Statewide Transfers for ADOA Procurement	9,000,000		9,000,000	(9,000,000)		0
APF/DOA - Acupuncture Board of Examiner Fund for e-Licensing	0		0	0	45,900	45,900
APF/DOA - Athletic Training Fund for e-Licensing	0		0	0	45,900	45,900
APF/DOA - Board of Barbers Fund for e-Licensing	0		0	0	40,000	40,000
APF/DOA - Board of Funeral Directors' & Embalmers' Fund (e-Lic.)	0		0	0	27,500	27,500
APF/DOA - Nursing Care Administrators Fund for e-Licensing	0		0	0	27,500	27,500
APF/DOA - Occupational Therapy Fund for e-Licensing	0		0	0	45,900	45,900
APF/DOA - Board of Dispensing Opticians Fund for e-Licensing	0		0	0	27,500	27,500
APF/DOA - Board of Optometry Fund for e-Licensing	0		0	0	45,900	45,900
APF/DOA - Board of Physical Therapy Fund for e-Licensing	0		0	0	45,900	45,900
APF/DOA - Podiatry Fund for e-Licensing	0		0	0	27,500	27,500
APF/DOA - Board for Private Postsecondary Ed. Fund (e-Lic.)	0		0	0	80,200	80,200
APF/DOA - Board of Psychologist Examiners Fund for e-Licensing	0		0	0	91,700	91,700
APF/DOA - Board of Respiratory Care Examiners for e-Licensing	0		0	0	44,100	44,100
APF/DOA - Underground Storage Tank from DEQ	0		0	0	3,200,000	3,200,000
APF/DOA - Admin Fund from Industrial Commission	0		0	0	1,017,400	1,017,400
APF/DOA - State Lottery Fund from Lottery Commission	0		0	0	3,497,400	3,497,400
APF/DOA - Public Safety Equipment Fund from DPS	0		0	0	1,000,000	1,000,000
APF/DOA - Concealed Weapons Permit Fund from DPS	0		0	0	2,500,000	2,500,000
APF/DOA - Fingerprint Clearance Card Fund from DPS	0		0	0	1,343,000	1,343,000
APF/DOA - Administrative Fund from DOR	0		0	0	4,000,000	4,000,000
APF/DOA - ACI Fund from ADC	1,000,000		1,000,000	(1,000,000)		0
APF/DOA - Inmate Store Proceeds from ADC	1,000,000		1,000,000	(1,000,000)		0
APF/DOA - Penitentiary Land Earnings Fund from ADC	1,000,000		1,000,000	(1,000,000)		0
APF/DOA - Charitable, Penal & Reformatory Land Fund from ADC	1,000,000		1,000,000	(1,000,000)		0
APF/DOA - Special Services Fund from ADC	4,000,000		4,000,000	(4,000,000)		0
APF/DOA - Special Admin Fund from DES	1,294,700		1,294,700	(1,294,700)		0
APF/DOA - Liability Setoff Program Revolving Fund from DOR	1,000,000		1,000,000	(1,000,000)	4,000,000	4,000,000
Other Transfers						
ADC - Radios - Corrections Fund from Inmate Store Proceeds	1,000,000		1,000,000	(1,000,000)		0
ADC - Radios - Corrections Fund from DOC Revolving Fund	500,000		500,000	(500,000)		0
ADC - Radios - Corrections Fund from Penitentiary Land Earnings	400,000		400,000	(400,000)		0
ADC - Radios - Corrections Fund from Special Services Fund	400,000		400,000	(400,000)		0
ADC - Radios - Corrections Fund from Char., Penal & Ref. Fund	500,000		500,000	(500,000)		0
ADC - Locking Systems - ADC Building Ren. Fund from ARCOR	0		0		1,450,000	1,450,000
DHS - State Hospital Fund from Indirect Cost Fund	0	3,800,000	3,800,000			0
DHS - State Hospital Fund from Health Service Lottery Fund	0		0	0	1,300,000	1,300,000
GAM - Racing Regulation Fund from Racing Admin Fund	23,700		23,700	(23,700)		0
ADOT - Motor Vehicle to SETIF	1,100,000		1,100,000	(1,100,000)		0
TOTAL - FUND TRANSFERS	\$36,816,800	3,800,000	\$40,616,800	(\$35,316,800)	35,111,900	\$36,611,900

1/ Represents original FY 2017 agency appropriations adjusted for revisions in Department of Agriculture, Attorney General, Lottery Commission, and the Universities. Original FY 2017 agency transfers adjusted for revisions in Automation Projects Fund/ADOA.

2/ Represents FY 2018 Baseline cost above FY 2017 estimate.

**CROSSWALK OF FY 2018 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
GENERAL FUND 1/**

	GF General Appropriation Act - Individual Agency <u>2</u> /	GF AFIS Collections Adjustment <u>3</u> /	GF Health Insurance Adjustment <u>4</u> /	GF Risk Management Adjustment <u>5</u> /	GF FY 2018 Additional Appropriations <u>6</u> /	GF Prior Year Statutory Appropriations <u>7</u> /	GF FY 2018 Approp Rpt Total
<u>BUDGET UNITS</u>							
Administration, Arizona Department of	\$10,264,500		\$100,800				\$10,365,300
Administration, Arizona Department of Automation Projects Fund	12,300,000		0				12,300,000
Administrative Hearings, Office of	860,500		10,400				870,900
African-American Affairs, Arizona Commission of	125,000		800				125,800
Agriculture, Arizona Department of	9,049,300		146,400		368,000 <u>8</u> /		9,563,700
AHCCCS	1,774,761,000	106,300	396,800				1,775,264,100
Attorney General - Department of Law	26,079,800	(96,300)	275,700			85,000	26,344,200
Charter Schools, State Board for	1,185,200		15,400				1,200,600
Child Safety, Department of	379,479,400	336,900	416,000	(441,500)			379,790,800
Commerce Authority, Arizona	21,800,000 <u>9</u> /		0				21,800,000
Community Colleges, Arizona Corporation Commission	49,864,800		0			5,221,700 <u>10</u> /	55,086,500
Corrections, State Department of	611,600		9,900				621,500
County Funding	1,055,469,400	(270,600)	12,319,800	106,200			1,067,624,800
Deaf and the Blind, Schools for the	15,650,700 <u>11</u> /		0				15,650,700
Economic Opportunity, Office of	21,378,100		553,900				21,932,000
Economic Security, Department of	484,100		0				484,100
Education, State Board of	585,736,000 <u>12/13</u> /	(364,400)	558,900	179,800			586,110,300
Education, Department of	1,142,800		10,800				1,153,600
Emergency and Military Affairs, Department of	3,245,795,300 <u>14</u> /	(19,500)	154,900		300,000 <u>15</u> /	980,727,700 <u>16</u> /	4,226,958,400
Environmental Quality, Department of	7,105,100		43,200			4,090,000	11,238,300
Equal Opportunity, Governor's Office of	0		0			2,823,600 <u>17</u> /	2,823,600
Equalization, State Board of	189,100		2,800				191,900
Executive Clemency, Board of	643,000		3,400				646,400
Financial Institutions, State Department of	952,600		10,900				963,500
Forestry and Fire Management, Arizona Department of	1,478,200		47,800		675,000 <u>18</u> /		2,201,000
Gaming, Department of	8,855,300		67,200			3,000,000	11,922,500
Governor, Office of the	1,779,500		0				1,779,500
Governor's Office of Strategic Planning and Budgeting	7,299,900 <u>19/20</u> /		71,500			1,500,000 <u>21</u> /	8,871,400
Health Services, Department of	1,994,000		20,600				2,014,600
Historical Society, Arizona	86,734,700	(83,900)	1,018,600				87,669,400
Historical Society, Prescott	2,722,900		37,300	419,600			3,179,800
Housing, Department of	824,500		15,700				840,200
Insurance, Department of	811,400		18,600				830,000
Judiciary	5,824,300	(17,900)	71,900				5,878,300
Supreme Court	18,716,500	(37,000)	330,600	(198,100)			18,812,000
Court of Appeals	14,578,100		172,700	(27,800)			14,723,000
Superior Court	77,234,500		0	(50,800)			77,183,700
SUBTOTAL - Judiciary	110,529,100	(37,000)	503,300	(276,700)	0	0	110,718,700
Juvenile Corrections, Department of	19,180,400	(24,700)	394,100				19,549,800
Land Department, State	12,715,900		143,400	(493,400)			12,365,900

	GF General Appropriation Act - Individual Agency <u>2/</u>	GF AFIS Collections Adjustment <u>3/</u>	GF Health Insurance Adjustment <u>4/</u>	GF Risk Management Adjustment <u>5/</u>	GF FY 2018 Additional Appropriations <u>6/</u>	GF Prior Year Statutory Appropriations <u>7/</u>	GF FY 2018 Approp Rpt Total
Legislature							
Auditor General	18,439,000		249,800				18,688,800
House of Representatives	13,201,500		217,600				13,419,100
Joint Legislative Budget Committee	2,488,300		25,500				2,513,800
Legislative Council	8,215,400		63,000				8,278,400
Senate	9,408,500		139,600				9,548,100
SUBTOTAL - Legislature	51,752,700	0	695,500	0	0	0	52,448,200
Mine Inspector, State	1,212,500		14,300				1,226,800
Navigable Stream Adjudication Commission	124,000		1,500				125,500
Postsecondary Education, Commission for	1,646,800		0		235,000 <u>22/</u>		1,881,800
Public Safety, Department of	108,654,600		959,600				109,614,200
Public Safety Personnel Retirement System	0		0			6,000,000	6,000,000
Radiation Regulatory Agency	773,400		14,200				787,600
Real Estate Department, State	2,994,900		33,100				3,028,000
Revenue, Department of	29,998,300	509,400	783,600				31,291,300
School Facilities Board	269,194,000 <u>23/</u>		14,000			23,078,600 <u>24/</u>	292,286,600
Secretary of State	12,084,700	(21,500)	126,900				12,190,100
Tax Appeals, State Board of	266,600		1,700				268,300
Tourism, Office of	7,112,000		0				7,112,000
Transportation, Department of	50,400		100				50,500
Treasurer, State	1,205,100		0				1,205,100
Tribal Relations, Governor's Office on	57,500		500				58,000
Universities							
Board of Regents	6,887,200		22,100				6,909,300
Arizona State University - Tempe/DPC	252,352,700 <u>25/</u>		2,338,400	732,500		12,564,000	267,987,600
Arizona State University - East Campus	21,771,400		68,800			917,000	22,757,200
Arizona State University - West Campus	29,413,500		100,700			0	29,514,200
Northern Arizona University	99,599,000 <u>26/</u>		56,900	60,400		8,896,500	108,612,800
University of Arizona - Main Campus	183,173,300 <u>27/</u>		1,524,200	(286,900)	941,000 <u>28/</u>	14,249,300	199,600,900
University of Arizona - Health Sciences Center	68,859,800		577,900			0	69,437,700
SUBTOTAL - Universities	662,056,900	0	4,689,000	506,000	941,000	36,626,800	704,819,700
Veterans' Services, Department of	6,054,100		61,700				6,115,800
Water Resources, Department of	15,871,000 <u>29/</u>	(16,800)	147,700				16,001,900
OPERATING BUDGET TOTAL	8,652,786,900	\$0	\$24,984,200	\$0	2,519,000	\$1,063,153,400	\$9,743,443,500
HITF One-Time Employer Premium	25,000,000		(24,984,200)				15,800
Capital Outlay Projects	5,700,000						5,700,000
Debt Service Payments	84,115,100 <u>30/</u>						84,115,100
Civic Center Debt Service	22,499,000 <u>31/</u>						22,499,000
Rio Nuevo Distribution	10,000,000 <u>32/</u>						10,000,000
Executive Reductions/Efficiency Savings	(10,000,000)						(10,000,000)
Administrative Adjustments	100,000,000						100,000,000
Revertments	(140,682,500)						(140,682,500)
GRAND TOTAL	\$8,749,418,500	\$0	\$0	\$0	2,519,000	\$1,063,153,400	\$9,815,090,900

GF General Appropriation Act - Individual Agency <u>2/</u>	GF AFIS Collections Adjustment <u>3/</u>	GF Health Insurance Adjustment <u>4/</u>	GF Risk Management Adjustment <u>5/</u>	GF FY 2018 Additional Appropriations <u>6/</u>	GF Prior Year Statutory Appropriations <u>7/</u>	GF FY 2018 Approp Rpt Total
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- 1/ This chart provides a crosswalk between an agency's appropriation in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) and the individual agency amount as it appears in the *FY 2018 Appropriations Report*.
- 2/ Represents individual agency section of the FY 2018 General Appropriation Act and other direct appropriations in the General Appropriation Act.
- 3/ Section 148 of the FY 2018 General Appropriation Act appropriates adjustments from the General Fund to individual agencies for Arizona Financial information System (AFIS) collections that net to zero.
- 4/ Section 146 of the FY 2018 General Appropriation Act appropriates \$25,000,000 from the General Fund and \$25,000,000 from Other Appropriated Funds in FY 2018 for employer health insurance contributions. Section 146 requires JLBC Staff to determine the agency-by-agency distribution of these funds.
- 5/ Section 147 of the FY 2018 General Appropriation Act appropriates adjustments from the General Fund for Risk Management that nets to zero.
- 6/ Appropriations separate from the FY 2018 General Appropriation Act. Individual bill detail appears in the "Budget Detail" section.
- 7/ Represents ongoing statutory appropriations or appropriations enacted prior to the 53rd Legislature, 1st Regular Session.
- 8/ Appropriated by Laws 2017, Chapter 280.
- 9/ Includes \$21,500,000 from Section 116 and \$300,000 from Section 117 of the FY 2018 General Appropriation Act.
- 10/ Includes \$2,596,700 for Rural County Reimbursement and \$2,625,000 for Tribal Community Colleges.
- 11/ Includes \$5,500,500, \$500,000, \$1,650,150 and \$8,000,000 from Section 112 of the FY 2018 General Appropriation Act.
- 12/ Includes \$10,000,000 from Section 118 of the FY 2018 General Appropriation Act.
- 13/ Includes \$2,000,000 from Section 119 of the FY 2018 General Appropriation Act.
- 14/ Includes \$100,000 from Section 124 of the FY 2018 General Appropriation Act.
- 15/ Appropriated by Laws 2017, Chapter 284.
- 16/ Includes \$50,000,000 appropriated annually from FY 2017 through FY 2020 by Laws 2015, 1st Special Session, Chapter 1. The sum of \$75,000,000 is appropriated annually in FY 2021 through FY 2025. Also includes \$930,727,700 from Section 162 of the FY 2017 General Appropriation Act (Laws 2016, Chapter 117).
- 17/ The FY 2018 Environment Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 308) continues to suspend the requirement to appropriate \$15,000,000 from the General Fund to the Water Quality Assurance Revolving Fund. In FY 2018, the Environment BRB sets the General Fund appropriation at \$2,823,600 and appropriates \$4,000,000 from the Vehicle Emissions Inspection Fund, \$2,000,000 from the Air Quality Fund, \$3,713,300 from the Permit Administration Fund and \$1,000,000 from the Recycling Fund for a total of \$10,713,300 from Other Appropriated Funds.
- 18/ The FY 2018 General Appropriation Act appropriates \$815,100 from the Board of Appraisal Fund in FY 2018. However, Laws 2017, Chapter 334 eliminates the Board of Appraisal Fund, transfers any amount remaining in the fund to the General Fund and appropriates \$675,000 from the General Fund for real estate appraisal duties.
- 19/ Includes \$200,000 from Section 122 of the FY 2018 General Appropriation Act.
- 20/ Includes \$250,000 from Section 125 of the FY 2018 General Appropriation Act.
- 21/ Appropriated by Laws 2016, Chapter 248.
- 22/ Appropriated by the FY 2018 K-12 Education BRB (Laws 2017, Chapter 304).
- 23/ Includes \$17,167,900 from Section 130 of the FY 2018 General Appropriation Act.
- 24/ Appropriated by Laws 2016, Chapter 117.
- 25/ Includes \$7,639,500 from Section 131 of the FY 2018 General Appropriation Act.
- 26/ Includes \$3,202,800 from Section 131 of the FY 2018 General Appropriation Act.
- 27/ Includes \$4,157,700 from Section 131 of the FY 2018 General Appropriation Act.
- 28/ Appropriated by Laws 2017, Chapter 285.
- 29/ Includes \$2,000,000 from Section 132 of the FY 2018 General Appropriation Act. The \$2,000,000 is appropriated in FY 2018, FY 2019 and FY 2020.
- 30/ Section 133 of the FY 2018 General Appropriation Act.
- 31/ Section 134 of the FY 2018 General Appropriation Act.
- 32/ Section 135 of the FY 2018 General Appropriation Act.

**CROSSWALK OF FY 2018 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
OTHER FUNDS 1/**

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
<u>BUDGET UNITS</u>						
Accountancy, State Board of						
Board of Accountancy Fund	\$2,024,400	\$17,800				\$2,042,200
Acupuncture Board of Examiners						
Acupuncture Board of Examiners Fund	185,500	0				185,500
Administration, Arizona Department of						
Administration - AFIS II Collections Fund	375,900	0				375,900
Air Quality Fund	927,300	0				927,300
Arizona Financial Information System Collections Fund	9,406,300	51,200				9,457,500
Automation Operations Fund	23,937,600	129,400				24,067,000
Capital Outlay Stabilization Fund	18,069,600	90,300				18,159,900
Corrections Fund	570,400	3,200				573,600
Federal Surplus Materials Revolving Fund	464,500	1,200				465,700
Information Technology Fund	2,936,000	12,900				2,948,900
Motor Vehicle Pool Revolving Fund	10,151,300	2,800				10,154,100
Personnel Division Fund	12,857,900	93,600				12,951,500
Risk Management Revolving Fund	90,875,000	76,400				90,951,400
Special Employee Health Insurance Trust Fund	5,256,100	45,900				5,302,000
Special Services Revolving Fund	809,900	2,400				812,300
State Surplus Materials Revolving Fund	2,947,000	13,600				2,960,600
State Web Portal Fund	5,542,400	9,200				5,551,600
Telecommunications Fund	1,845,100	13,600				1,858,700
Total - Arizona Department of Administration	<u>186,972,300</u>	<u>545,700</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>187,518,000</u>
Administration, Arizona Department of -						
Automation Projects Fund	55,761,900 <u>7/</u>	0				55,761,900
Agriculture, Arizona Department of						
Air Quality Fund	1,434,400	7,100				1,441,500
Nuclear Emergency Management Fund	0	0		275,000 <u>8/</u>		275,000
Total - Arizona Department of Agriculture	<u>1,434,400</u>	<u>7,100</u>	<u>0</u>	<u>275,000</u>	<u>0</u>	<u>1,716,500</u>
AHCCCS						
Budget Neutrality Compliance Fund	3,655,300	0				3,655,300
Children's Health Insurance Program Fund	117,681,000	7,200				117,688,200
Prescription Drug Rebate Fund - State	145,690,300 <u>9/</u>	900				145,691,200
Substance Abuse Services Fund	2,250,200	0				2,250,200
Tobacco Products Tax Fund						
Emergency Health Services Account	19,244,300	0				19,244,300
Tobacco Tax and Health Care Fund						
Medically Needy Account	72,998,200	0				72,998,200
Total - AHCCCS	<u>361,519,300</u>	<u>8,100</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>361,527,400</u>
Arts, Arizona Commission on the						

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Budget Stabilization Fund	1,500,000 <u>10/</u>	0				1,500,000
Athletic Training, Board of Athletic Training Fund	119,100	1,500				120,600
Attorney General - Department of Law						
Antitrust Enforcement Revolving Fund	244,300	2,000				246,300
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,080,400	0				2,080,400
Collection Enforcement Revolving Fund	6,845,200	75,700				6,920,900
Consumer Protection-Consumer Fraud Rev. Fund	6,275,700	59,900				6,335,600
Interagency Service Agreements Fund	16,308,500	192,300				16,500,800
Internet Crimes Against Children Enforcement Fund	900,000	0				900,000
Risk Management Revolving Fund	9,406,700	61,900				9,468,600
Victims' Rights Fund	3,758,900	2,400				3,761,300
Total - Attorney General - Department of Law	<u>45,819,700</u>	<u>394,200</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>46,213,900</u>
Automobile Theft Authority						
Automobile Theft Authority Fund	5,295,500	5,900				5,301,400
Barbers, Board of Board of Barbers Fund	341,800	4,000				345,800
Behavioral Health Examiners, Board of Board of Behavioral Health Examiners Fund	1,759,100	18,700				1,777,800
Child Safety, Department of						
Child Abuse Prevention Fund	1,459,300	0				1,459,300
Children and Family Services Training Program Fund	207,100	0				207,100
Federal Child Care and Development Fund Block Grant	27,000,000	0				27,000,000
Federal Temporary Assistance for Needy Families Block Grant	149,472,700	0				149,472,700
Risk Management Revolving Fund	2,471,200	0				2,471,200
Total - Department of Child Safety	<u>180,610,300</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>180,610,300</u>
Chiropractic Examiners, State Board of Board of Chiropractic Examiners Fund	451,100	4,000				455,100
Contractors, Registrar of Registrar of Contractors Fund	12,165,400	103,000				12,268,400
Corporation Commission						
Arizona Arts Trust Fund	49,900	1,700				51,600
Investment Management Regulatory and Enforcement Fund	708,900	8,600				717,500
Public Access Fund	6,558,800	79,300				6,638,100
Securities Regulatory and Enforcement Fund	4,909,600	59,700				4,969,300
Utility Regulation Revolving Fund	14,098,400	177,500				14,275,900
Total - Corporation Commission	<u>26,325,600</u>	<u>326,800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,652,400</u>
Corrections, State Department of						
Alcohol Abuse Treatment Fund	555,500	0				555,500
Corrections Fund	30,312,300	0				30,312,300
Inmate Store Proceeds Fund	386,300	0				386,300

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Penitentiary Land Fund	2,062,500	0				2,062,500
Prison Construction and Operations Fund	12,500,000	0				12,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,661,500	0				2,661,500
State Education Fund for Correctional Education	669,500	5,500				675,000
Transition Program Fund	2,400,100	0				2,400,100
Total - State Department of Corrections	51,547,700	5,500	0	0	0	51,553,200
Cosmetology, Board of Board of Cosmetology Fund	1,839,400	25,100				1,864,500
Criminal Justice Commission, Arizona Criminal Justice Enhancement Fund	646,600	4,700				651,300
Drug and Gang Prevention Resource Center Fund	604,500	500				605,000
Inmate Store Proceeds Fund	0	0		750,000 <u>11/</u>		750,000
Penitentiary Land Fund	0	0		1,000,000 <u>11/</u>		1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	0	0		1,000,000 <u>11/</u>		1,000,000
State Aid to County Attorneys Fund	973,700	0				973,700
Victim Compensation and Assistance Fund	4,220,600	2,000				4,222,600
Total - Arizona Criminal Justice Commission	6,445,400	7,200	0	2,750,000	0	9,202,600
Deaf and the Blind, Arizona Schools for the Schools for the Deaf and the Blind Fund	11,838,900	39,800				11,878,700
Deaf and the Hard of Hearing, Comm. for the Telecommunication Fund for the Deaf	4,604,300	18,300				4,622,600
Dental Examiners, State Board of Dental Board Fund	1,214,500	15,400				1,229,900
Economic Security, Department of Child Support Enforcement Administration Fund	16,632,600	634,800				17,267,400
Domestic Violence Services Fund	4,000,000	0				4,000,000
Federal Child Care and Development Fund Block Grant	107,773,600	0				107,773,600
Federal Temporary Assistance for Needy Families Block Grant	72,964,700	0				72,964,700
Health Services Lottery Monies Fund	2,800,000	0				2,800,000
Long Term Care System Fund	26,559,600	1,900				26,561,500
Public Assistance Collections Fund	421,900	200				422,100
Special Administration Fund	2,928,700	23,100				2,951,800
Spinal and Head Injuries Trust Fund	2,323,700	2,700				2,326,400
Statewide Cost Allocation Plan Fund	1,000,000	0				1,000,000
Workforce Investment Act Grant	56,040,200	0				56,040,200
Total - Department of Economic Security	293,445,000	662,700	0	0	0	294,107,700
Education, Department of Automation Projects Fund	3,000,000 <u>12/</u>	0				3,000,000
Budget Stabilization Fund	2,600,000 <u>13/</u>	0				2,600,000
Department of Education Empowerment						

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Scholarship Account Fund	1,197,900 <u>14/</u>	4,100				1,202,000
Department of Education Professional Development Revolving Fund	2,700,000	0				2,700,000
Permanent State School Fund	235,343,500	0				235,343,500
Proposition 301 Fund	7,000,000	0				7,000,000
Teacher Certification Fund	2,342,700	20,500				2,363,200
Tribal College Dual Enrollment Program Fund	250,000	0				250,000
Total - Department of Education	254,434,100	24,600	0	0	0	254,458,700
Emergency and Military Affairs, Department of Nuclear Emergency Management Fund	0	0		1,438,400 <u>8/</u>		1,438,400
Environmental Quality, Department of Air Quality Fund	5,361,400	20,500		2,000,000 <u>15/</u>		7,381,900
Emergency Response Fund	132,800	0				132,800
Emissions Inspection Fund	26,570,500	39,600		4,000,000 <u>15/</u>		30,610,100
Hazardous Waste Management Fund	1,734,600	9,700				1,744,300
Indirect Cost Recovery Fund	13,375,200	88,800				13,464,000
Permit Administration Fund	7,114,100	48,900		3,713,300 <u>15/</u>		10,876,300
Recycling Fund	1,352,900	8,400		1,000,000 <u>15/</u>		2,361,300
Safe Drinking Water Program Fund	1,800,000	0				1,800,000
Solid Waste Fee Fund	1,239,000	8,400				1,247,400
Underground Storage Tank Fund Revolving Fund	22,000	0				22,000
Water Quality Fee Fund	10,507,400	74,900				10,582,300
Total - Department of Environmental Quality	69,209,900	299,200	0	10,713,300	0	80,222,400
Exposition and State Fair Board, Arizona Arizona Exposition and State Fair Fund	12,113,300	40,000				12,153,300
Financial Institutions, Department of Board of Appraisal Fund	815,100	0		(815,100) <u>16/</u>		0
Financial Services Fund	3,203,500	23,300				3,226,800
Total - Department of Financial Institutions	4,018,600	23,300	0	(815,100)	0	3,226,800
Funeral Directors and Embalmers, Board of Board of Funeral Directors' and Embalmers' Fund	373,300	4,900				378,200
Game and Fish Department, Arizona Capital Improvement Fund	1,001,200	0				1,001,200
Game and Fish Fund	36,800,100	310,500				37,110,600
Game, Nongame, Fish and Endangered Species Fund	345,800	1,000				346,800
Watercraft Licensing Fund	5,796,700	37,700				5,834,400
Wildlife Endowment Fund	16,200	0				16,200
Total - Arizona Game and Fish Department	43,960,000	349,200	0	0	0	44,309,200
Gaming, Department of Tribal-State Compact Fund	2,081,800	23,600				2,105,400
Racing Regulation Fund	2,136,000 <u>17/</u>	31,900				2,167,900
State Lottery Fund	300,000	0				300,000
Arizona Benefits Fund	11,050,900	0				11,050,900
Total - Department of Gaming	15,568,700	55,500	0	0	0	15,624,200

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Health Services, Department of						
Arizona State Hospital Fund	6,762,000	46,800				6,808,800
ASH Land Earnings Fund	970,000	0				970,000
Capital Outlay Stabilization Fund	1,559,900	0				1,559,900
Child Fatality Review Fund	94,700	2,200				96,900
Emergency Medical Services Operating Fund	6,207,900 <u>18/</u>	40,200				6,248,100
Environmental Laboratory Licensure Revolving Fund	924,200	6,200				930,400
Federal Child Care and Development Fund Block Grant	872,300	15,600				887,900
Health Services Licensing Fund	9,232,300	140,400				9,372,700
Indirect Cost Fund	9,546,100	35,200				9,581,300
Newborn Screening Program Fund	7,643,100	31,800				7,674,900
Nursing Care Institution Resident Protection Revolving Fund	138,200	0				138,200
Tobacco Tax and Health Care Fund Health Research Account	2,000,000	0			2,000,000	4,000,000
Tobacco Tax and Health Care Fund Medically Needy Account	700,000	0				700,000
Vital Records Electronic Systems Fund	3,619,500	17,900				3,637,400
Total - Department of Health Services	50,270,200	336,300	0	0	2,000,000	52,606,500
Homeopathic and Integrated Medicine Examiners, Board of Board of Homeopathic and Integrated Medicine Examiners' Fund	87,300	1,700				89,000
Housing, Department of Housing Trust Fund	318,500	4,700				323,200
Industrial Commission of Arizona Administrative Fund	19,881,300	229,100				20,110,400
Judiciary - Supreme Court Confidential Intermediary and Fiduciary Fund	488,900	4,700				493,600
Court Appointed Special Advocate Fund	3,343,200	5,300				3,348,500
Criminal Justice Enhancement Fund	4,365,200	34,400				4,399,600
Defensive Driving School Fund	4,198,500	7,400				4,205,900
Judicial Collection Enhancement Fund	14,017,900	16,200		750,000 <u>19/</u>		14,784,100
Legislative, Executive and Judicial Public Buildings Fund	0	0	137,000			137,000
State Aid to the Courts Fund	2,945,100	0				2,945,100
Total - Judiciary - Supreme Court	29,358,800	68,000	137,000	750,000	0	30,313,800
Judiciary - Superior Court Criminal Justice Enhancement Fund	5,435,200	0				5,435,200
Health Services Lottery Monies Fund	250,000 <u>20/</u>	0				250,000
Judicial Collection Enhancement Fund	6,015,200	0				6,015,200
Drug Treatment and Education Fund	502,900	0				502,900
Total - Judiciary - Superior Court	12,203,300	0	0	0	0	12,203,300

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
SUBTOTAL - Judiciary	41,562,100	68,000	137,000	750,000	0	42,517,100
Juvenile Corrections, Department of						
Criminal Justice Enhancement Fund	531,300 <u>21/</u>	0				531,300
Department of Juvenile Corrections						
Local Cost Sharing Fund	11,260,000	0				11,260,000
State Charitable, Penal and Reformatory						
Institutions Land Fund	3,011,300	261,300				3,272,600
State Education Fund for Committed Youth	1,588,200	3,000				1,591,200
Total - Department of Juvenile Corrections	16,390,800	264,300	0	0	0	16,655,100
Land Department, State						
Due Diligence Fund	500,000	0				500,000
Environmental Special Plate Fund	260,600	0				260,600
Trust Land Management Fund	6,486,500	2,900				6,489,400
Total - State Land Department	7,247,100	2,900	0	0	0	7,250,000
Legislature						
Auditor General						
Arizona Water Banking Fund	200,000 <u>22/</u>	0				200,000
Liquor Licenses and Control, Department of						
Liquor Licenses Fund	3,007,400	40,100				3,047,500
Lottery Commission, Arizona State						
State Lottery Fund	114,316,100	104,800				114,420,900
Massage Therapy, Board of						
Board of Massage Therapy Fund	461,100	5,000				466,100
Medical Board, Arizona						
Arizona Medical Board Fund	6,784,000	57,900				6,841,900
Mine Inspector, State						
Aggregate Mining Reclamation Fund	112,900	0				112,900
Naturopathic Physicians Medical Board						
Naturopathic Physicians Medical Board Fund	180,200	2,800				183,000
Navigable Stream Adjudication Commission						
Arizona Water Banking Fund	200,000	0				200,000
Nursing, State Board of						
Board of Nursing Fund	4,804,800	55,700				4,860,500
Nursing Care Institution Administrators Board						
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	421,400	5,100				426,500
Occupational Therapy Examiners, Board of						
Occupational Therapy Fund	180,700	3,000				183,700
Opticians, State Board of Dispensing						
Board of Dispensing Opticians Fund	140,000	1,700				141,700
Optometry, State Board of						
Board of Optometry Fund	220,100	2,100				222,200
Osteopathic Examiners, Arizona Board of						
Board of Osteopathic Examiners Fund	905,500	7,600				913,100

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Parks Board, Arizona State						
State Parks Revenue Fund	14,254,100	147,400				14,401,500
Personnel Board, State						
Personnel Board Subaccount of the Personnel Division Fund	375,300	2,800				378,100
Pharmacy, Arizona State Board of						
Arizona State Board of Pharmacy Fund	2,262,700	22,400				2,285,100
Physical Therapy, Board of						
Board of Physical Therapy Fund	441,200	6,800				448,000
Pioneers' Home, Arizona						
Miners' Hospital for Miners with Disabilities Fund	2,028,900	28,800				2,057,700
State Charitable Fund	4,463,700	84,200				4,547,900
Total - Arizona Pioneers' Home	<u>6,492,600</u>	<u>113,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,605,600</u>
Podiatry Examiners, State Board of						
Podiatry Fund	148,400	1,300				149,700
Postsecondary Education, Commission for						
Postsecondary Education Fund	1,534,100	7,000				1,541,100
Private Postsecondary Education, Board for						
Board for Private Postsecondary Education Fund	416,900	4,100				421,000
Psychologist Examiners, State Board of						
Board of Psychologist Examiners Fund	475,400	5,200				480,600
Public Safety, Department of						
Arizona Deoxyribonucleic Acid Identification System Fund	4,970,100	0				4,970,100
Arizona Highway Patrol Fund	24,992,800	481,600				25,474,400
Arizona Automated Fingerprint Identification System Fund	2,917,600	2,100				2,919,700
Concealed Weapons Permit Fund	1,409,800	10,200				1,420,000
Crime Laboratory Assessment Fund	870,300	0				870,300
Crime Laboratory Operations Fund	13,611,300	0				13,611,300
Criminal Justice Enhancement Fund	2,873,400	0				2,873,400
Fingerprint Clearance Card Fund	700,000	0				700,000
GIITEM Border Security and Law Enforcement Subaccount	2,527,700	0				2,527,700
Highway User Revenue Fund	99,398,700	0				99,398,700
Motorcycle Safety Fund	205,000	0				205,000
Parity Compensation Fund	3,397,400	24,900				3,422,300
Public Safety Equipment Fund	3,893,700	0				3,893,700
Risk Management Revolving Fund	1,314,200	0				1,314,200
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,617,800	16,600				1,634,400
State Aid to Indigent Defense Fund	700,000	0				700,000
State Highway Fund	<u>7,580,900</u>	<u>1,132,600</u>				<u>8,713,500</u>
Total - Department of Public Safety	<u>172,980,700</u>	<u>1,668,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>174,648,700</u>

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Radiation Regulatory Agency						
Nuclear Emergency Management Fund	0	0		789,700 <u>8/</u>		789,700
State Radiologic Technologist Certification Fund	271,600	2,200				273,800
Radiation Regulatory Fee Fund	576,500	6,400				582,900
Total - Radiation Regulatory Agency	848,100	8,600	0	789,700	0	1,646,400
Residential Utility Consumer Office						
Residential Utility Consumer Office Revolving Fund	1,331,400	12,900				1,344,300
Respiratory Care Examiners, Board of						
Board of Respiratory Care Examiners Fund	319,800	3,500				323,300
Retirement System, Arizona State						
Long-Term Disability Trust Fund Administration Account	2,500,000	0				2,500,000
Arizona State Retirement System Administration Account	22,384,200	283,500				22,667,700
Total - Arizona State Retirement System	24,884,200	283,500	0	0	0	25,167,700
Revenue, Department of						
Department of Revenue Administrative Fund	45,158,700	145,000				45,303,700
Department of Revenue Empowerment Scholarship Account Fund	50,000	0				50,000
Liability Setoff Program Revolving Fund	397,900	6,200				404,100
Tobacco Tax and Health Care Fund	678,300	6,300				684,600
Total - Department of Revenue	46,284,900	157,500	0	0	0	46,442,400
Secretary of State						
Election Systems Improvement Fund	2,941,100	2,600				2,943,700
Records Services Fund	740,400	11,400				751,800
Total - Secretary of State	3,681,500	14,000	0	0	0	3,695,500
Technical Registration, State Board of						
Technical Registration Fund	2,204,400	29,300				2,233,700
Transportation, Department of						
Air Quality Fund	161,700	0				161,700
Driving Under the Influence Abatement Fund	152,200	1,200				153,400
Highway User Revenue Fund	649,700	6,400				656,100
Highway Damage Recovery Account	3,000,000	0				3,000,000
Motor Vehicle Liability Insurance Enforcement Fund	1,308,700	23,700				1,332,400
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,868,300	29,100				1,897,400
State Aviation Fund	2,081,800	21,300				2,103,100
State Highway Fund	356,923,100	4,207,700				361,130,800
Transportation Department Equipment Fund	18,474,600	251,700				18,726,300
Vehicle Inspection and Certificate of Title Enforcement Fund	1,450,200	14,200				1,464,400
Total - Department of Transportation	386,070,300	4,555,300	0	0	0	390,625,600

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
Treasurer, State						
Law Enforcement and Boating Safety Fund	2,183,800	0				2,183,800
State Treasurer Empowerment Scholarship Account Fund	304,400	0				304,400
State Treasurer's Operating Fund	2,559,300	36,300				2,595,600
State Treasurer's Management Fund	295,600	0				295,600
Total - State Treasurer	<u>5,343,100</u>	<u>36,300</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,379,400</u>
Universities						
Arizona State University - Tempe/DPC						
University Collections Fund	593,126,200	5,180,000				598,306,200
Arizona State University - East Campus						
University Collections Fund	42,303,300	132,900				42,436,200
Technology and Research Initiative Fund	2,000,000	0				2,000,000
Total - Arizona State University - East Campus	<u>44,303,300</u>	<u>132,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>44,436,200</u>
Arizona State University - West Campus						
University Collections Fund	44,190,500	155,000				44,345,500
Technology and Research Initiative Fund	1,600,000	0				1,600,000
Total - Arizona State University - West Campus	<u>45,790,500</u>	<u>155,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>45,945,500</u>
Northern Arizona University						
University Collections Fund	147,283,300	78,800				147,362,100
University of Arizona - Main Campus						
University Collections Fund	405,141,100	3,179,400				408,320,500
University of Arizona - Health Sciences Center						
University Collections Fund	47,491,400	408,200				47,899,600
SUBTOTAL - Universities	<u>1,283,135,800</u>	<u>9,134,300</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,292,270,100</u>
Veterans' Services, Department of						
State Home for Veterans Trust Fund	35,147,600	345,100				35,492,700
Total - Department of Veterans' Services	<u>35,147,600</u>	<u>345,100</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>35,492,700</u>
Veterinary Medical Examining Board						
Veterinary Medical Examining Board Fund	584,800	5,200				590,000
Water Resources, Department of						
Assured and Adequate Water Supply Admin Fund	266,300	500				266,800
Water Resources Fund	641,400	0				641,400
Water Banking Fund	1,211,400	0				1,211,400
Total - Department of Water Resources	<u>2,119,100</u>	<u>500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,119,600</u>
OPERATING BUDGET TOTAL	<u>\$3,911,926,400</u>	<u>20,764,300</u>	<u>137,000</u>	<u>15,901,300</u>	<u>2,000,000</u>	<u>3,950,729,000</u>
HITF One-Time Employer Premium	25,000,000 <u>3/</u>	(20,764,300)				4,235,700
Local HURF Transportation Funding	0			30,000,000 <u>23/</u>		30,000,000
Capital Outlay Projects	<u>\$366,380,100</u>					<u>366,380,100</u>
GRAND TOTAL	<u><u>4,303,306,500</u></u>	<u><u>\$0</u></u>	<u><u>\$137,000</u></u>	<u><u>\$45,901,300</u></u>	<u><u>\$2,000,000</u></u>	<u><u>\$4,351,344,800</u></u>

OF General Appropriation Act - Individual Agency <u>2/</u>	OF Health Insurance Adjustment <u>3/</u>	OF Risk Management Adjustment <u>4/</u>	OF FY 2018 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2018 Approp Rpt Total
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CROSSWALK OF FY 2018 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS EXPENDITURE AUTHORITY

AHCCCS	\$9,895,349,200	\$776,000	\$0	\$0	\$0	\$9,896,125,200
Child Safety, Department of	415,269,400	271,400	0	0	0	415,540,800
Economic Security, Department of	1,082,397,900 <u>24/</u>	442,300	0	0	0	1,082,840,200
GRAND TOTAL	\$11,393,016,500	\$1,489,700	\$0	\$0	\$0	\$11,394,506,200

1/ This chart provides a crosswalk between an agency's appropriation in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) and the individual agency amount as it appears in the *FY 2018 Appropriations Report*.

2/ Represents individual agency section of FY 2018 General Appropriation Act and other direct appropriations in the General Appropriation Act.

3/ Section 146 of the FY 2018 General Appropriation Act appropriates \$25,000,000 from the General Fund and \$25,000,000 from Other Appropriated Funds in FY 2018 for employer health insurance contributions. Section 146 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

4/ Section 147 of the FY 2018 General Appropriation Act appropriates adjustments from Other Funds for Risk Management.

5/ Appropriations separate from the FY 2018 General Appropriation Act. Individual bill detail appears in the "Budget Detail" section.

6/ Represents ongoing statutory appropriations or appropriations enacted prior to the 53rd Legislature, 1st Regular Session.

7/ Sections 2 and 115 of the FY 2018 General Appropriation Act.

8/ Appropriated by Laws 2017, Chapter 43.

9/ Includes \$200,000 from Section 113 of the FY 2018 General Appropriation Act.

10/ Includes \$1,500,000 from Section 114 of the FY 2018 General Appropriation Act.

11/ Appropriated by Laws 2017, Chapter 286.

12/ Includes \$3,000,000 from Section 120 of the FY 2018 General Appropriation Act.

13/ Includes \$2,600,000 from Section 123 of the FY 2018 General Appropriation Act.

14/ Includes \$400,000 from Section 121 of the FY 2018 General Appropriation Act.

15/ The FY 2018 Environment Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 308) continues to suspend the requirement to appropriate \$15,000,000 from the General Fund to the Water Quality Assurance Revolving Fund. In FY 2018, the Environment BRB sets the General Fund appropriation at \$2,823,600 and appropriates \$4,000,000 from the Vehicle Emissions Inspection Fund, \$2,000,000 from the Air Quality Fund, \$3,713,300 from the Permit Administration Fund and \$1,000,000 from the Recycling Fund for a total of \$10,713,300 from Other Appropriated Funds.

16/ The FY 2018 General Appropriation Act appropriates \$815,100 from the Board of Appraisal Fund in FY 2018. However, Laws 2017, Chapter 334 eliminates the Board of Appraisal Fund, transfers any amount remaining in the fund to the General Fund and appropriates \$675,000 from the General Fund for real estate appraisal duties.

17/ Includes \$250,000 from Section 126 of the FY 2018 General Appropriation Act.

18/ Includes \$500,000 from Section 127 of the FY 2018 General Appropriation Act.

19/ Appropriated by the FY 2018 Criminal Justice Budget Reconciliation (BRB) (Laws 2017, Chapter 303).

20/ Includes \$250,000 from Section 128 of the FY 2018 General Appropriation Act.

21/ The Section 55 of the FY 2018 General Appropriation Act included incorrect fund sourcing from the Criminal Justice Enhancement Fund. Instead of \$531,300, the number should have been \$531,500.

22/ Includes \$200,000 from Section 129 of the FY 2018 General Appropriation Act.

23/ Appropriated by the FY 2018 Revenues BRB (Laws 2017, Chapter 312).

24/ Includes \$23,036,000 from Section 118 of the FY 2018 General Appropriation Act.

SUMMARY OF RISK MANAGEMENT CHARGES 1/

<u>Agency</u>	<u>FY 2018 Charge</u>
Accountancy, Arizona State Board of	\$3,500
Acupuncture Board of Examiners	1,100
Administration, Arizona Department of	1,289,500
Administrative Hearings, Office of	3,500
Agriculture, Arizona Department of	123,800
AHCCCS	231,200
African-American Affairs, Arizona Commission of	1,000
Arts, Arizona Commission on the	5,200
Athletic Training, Board of	0
Attorney General - Department of Law	544,500
Automobile Theft Authority	2,400
Barbers, Board of	1,200
Behavioral Health Examiners, Board of	6,000
Charter Schools, State Board for	2,700
Child Safety, Department of	1,334,800
Chiropractic Examiners, State Board of	3,700
Citizens Clean Election Commission	1,800
Commerce Authority, Arizona	19,300
Constable Ethics Standards and Training Board	1,000
Contractors, Registrar of	28,300
Corporation Commission	143,600
Corrections, State Department of	7,702,500
Cosmetology, Board of	5,400
Criminal Justice Commission, Arizona	8,600
Deaf and the Blind, Arizona State Schools for the	295,400
Deaf and the Hard of Hearing, Commission for the	4,700
Dental Examiners, State Board of	3,300
Early Childhood Development & Health Board, Arizona	73,000
Economic Opportunity, Office of	2,000
Economic Security, Department of	2,881,300
Education, Board of	1,000
Education, Department of	144,900
Emergency and Military Affairs, Department of	608,100
Environmental Quality, Department of	168,500
Equal Opportunity, Governor's Office of	1,000
Equalization, State Board of	5,200
Executive Clemency, Board of	3,300
Exposition and State Fair Board, Arizona	229,900
Financial Institutions, Department of	14,100
Forestry and Fire Management, Arizona Department of	148,000
Funeral Directors & Embalmers, State Board of	1,200
Game and Fish Department, Arizona	511,700
Gaming, Department of	43,200
Governor, Office of the	61,100
Governor's Office of Strategic Planning & Budgeting	3,900
Health Services, Department of	923,300
Historical Society, Arizona	605,200
Historical Society of Arizona, Prescott	13,600
Homeland Security, Arizona Department of	9,600
Homeopathic and Integrated Medical Examiners, Board of	1,000
Housing, Arizona Department of	25,100
Tribal Relations, Governor's Office on	1,100
Industrial Commission of Arizona	103,000
Insurance, Department of	29,000
Judiciary - Court of Appeals, Division I	19,800
Judiciary - Court of Appeals, Division II	7,800
Judiciary - Superior Court	1,168,200
Judiciary - Supreme Court	184,200
Juvenile Corrections, Department of	250,000
Land Department, State	413,500
Legislature - Legislative Council	11,200
Legislature - Auditor General	44,600
Legislature - House of Representatives	83,900

<u>Agency</u>	<u>FY 2018 Charge</u>
Legislature - Joint Legislative Budget Committee	8,000
Legislature - Senate	89,900
Liquor License and Control, Department of	38,500
Lottery Commission, Arizona State	43,700
Massage Therapy, Board of	1,600
Medical Board, Arizona	24,600
Mine Inspector, State	9,200
Naturopathic Physicians Medical Board	2,000
Navigable Stream Adjudication Commission, Arizona	1,000
Nursing Care Institution of Administrators and Assisted Living Facility Managers, Board of Examiners of	2,400
Nursing, State Board of	11,400
Occupational Therapy Examiners, Board of	500
Opticians, State Board of Dispensing	1,000
Optometry, State Board of	1,100
Osteopathic Examiners in Medicine and Surgery, Arizona Board of	1,900
Park Board, Arizona State	254,300
Personnel Board, State	1,100
Pharmacy, Arizona State Board of	7,800
Physical Therapy, Board of	1,700
Pioneers' Home, Arizona	40,400
Podiatry Examiners, State Board of	1,000
Postsecondary Education, Commission for	4,300
Power Authority, Arizona	21,800
Private Postsecondary Education, State Board for	2,100
Psychologist Examiners, State Board of	3,000
Public Safety, Department of	2,810,500
Public Safety Personnel Retirement System	72,300
Radiation Regulatory Agency	10,700
Real Estate Department, State	10,700
Residential Utility Consumer Office	2,200
Respiratory Care Examiners, Board of	1,600
Retirement System, Arizona State	150,600
Revenue, Department of	186,200
School Facilities Board	8,200
Secretary of State, Department of State	147,000
Tax Appeals, State Board of	1,000
Technical Registration, State Board of	6,000
Tourism, Office of	7,700
Transportation, Department of ^{2/}	15,981,300
Treasurer, State	6,800
Universities - Arizona State University	11,411,500
Universities - Northern Arizona University	2,677,400
Universities - Regents, Arizona Board of	12,800
Universities - University of Arizona	10,603,600
Veterans' Services, Department of	277,600
Veterinary Medical Examining Board, Arizona State	1,900
Water Infrastructure Financing Agency	6,500
Water Resources, Department of	31,000
<i>Other Agencies</i>	
Boyce Thompson Arboretum	12,700
Central Arizona Water Conservation District	4,200
Uniform State Law Com	1,000
GRAND TOTAL	65,580,800

^{1/} Total charges reflect Arizona Department of Administration billed amounts with the exception of the Arizona Department of Transportation (ADOT).

^{2/} A General Appropriation Act footnote requires ADOT to pay Risk Management charges of \$15,981,300.

**BUDGET RECONCILIATION BILLS
AND MAJOR FOOTNOTE CHANGES**

FY 2018 BUDGET RECONCILIATION BILLS (BRBs) AND MAJOR FOOTNOTE CHANGES*

	<u>Page</u>
Budget Procedures BRB - Chapter 307 (SB 1524)	487
Criminal Justice BRB - Chapter 303 (HB 2540)	488
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Health BRB - Chapter 309 (SB 1527)	489
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University Infrastructure Capital Financing - Chapter 328 (HB 2547)	494
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*Chapter numbers refer to 1st Regular Session.

FY 2018 BUDGET RECONCILIATION BILL PROVISIONS

The following provisions are grouped by subject into Budget Reconciliation Bills (BRBs). New provisions in the budget are noted with an asterisk (*).

BUDGET PROCEDURES – CHAPTER 307 (SB 1524)

	<u>Section</u>
Statewide	
1. As session law, notwithstanding A.R.S. § 35-111 to require the Governor to submit an annual budget for FY 2019.	8
2. As session law, notwithstanding A.R.S. § 35-113 to require the head of each department to submit an annual budget for FY 2019.	8
3. As session law, notwithstanding A.R.S. § 35-121 to permit annual appropriations for all agencies for FY 2020. (Laws 2016, Chapter 127 permitted annual appropriations for all agencies through FY 2019.)	8
4. As session law, continue to set the FY 2018 Capital Outlay Stabilization Fund (COSF) rental rate charged by the Arizona Department of Administration (ADOA) at \$13.08/square foot for rentable office space and \$4.74/square foot for rentable storage space.	6
5. As session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.	5
Arizona Department of Administration	
6. * As session law, exempt ADOA Risk Management from the rulemaking process to allow the department to increase the deductible from \$100 to \$2,500 on July 1, 2017.	7
Arizona Commerce Authority	
7. * As session law, retroactively extend the delayed repeal of the Arizona Job Training Fund and clarify that commitments of monies from the fund may be made until December 31, 2020. Restores prior statutory language on the process for distributing job training grants. All unexpended monies are to be transferred to the General Fund following repeal on June 30, 2022.	4,10
Department of Emergency and Military Affairs	
8. * As permanent law, modify A.R.S. § 26-262 to clarify that the Joint Committee on Capital Review shall review all Military Installation Fund grants before monies are expended.	1
Department of Transportation	
9. * As permanent law, establish an appropriated Highway Damage Recovery Account as a subaccount within the State Highway Fund for all monies recovered for damage caused to state highways and related property.	2
Revenues	
10. As session law, continue to notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund through FY 2020.	9
Universities	
11. * As permanent law, exempt the University of Arizona from paying state building rent for the Mines and Minerals Museum.	3

CRIMINAL JUSTICE – CHAPTER 303 (HB 2540)

	<u>Section</u>
Automobile Theft Authority	
12. * As permanent law, increase the Director's salary in statute from a maximum of \$75,000 to a maximum of \$100,000.	14
State Department of Corrections	
13. As session law, continue to require the department to report actual FY 2017, estimated FY 2018, and requested FY 2019 expenditures as delineated in the prior year when the department submits its FY 2019 budget request pursuant to A.R.S. § 35-113.	17
Judiciary	
14. * As permanent law, modify statutory filing fee distributions for Justices of the Peace and Superior Courts by increasing the distribution to the Judicial Collection Enhancement Fund and reducing the distribution to all other recipients. As session law, appropriate \$750,000 from the Judicial Collection Enhancement Fund in FY 2018 for courthouse security.	2,3,23
Department of Juvenile Corrections	
15. As session law, continue to state that it is the intent of the Legislature that each county pay an assessed amount determined by the county's proportional share by population of \$11,260,000. (Offset by \$8,000,000 in state funding to counties in the General Appropriation Act).	22
Department of Public Safety	
16. As session law, continue to require the Department of Public Safety (DPS) to receive Joint Legislative Budget Committee (JLBC) review of the expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount FY 2018 appropriation prior to its expenditure.	19
17. As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF.	18
18. As session law, continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses.	21
19. As session law, continue to allow DPS to utilize \$137,700 from the FY 2018 GIITEM Subaccount appropriation for costs related to an increase in the PSPRS employer contribution rate.	20
20. * As permanent law, combine the Crime Lab Operations Fund, Crime Lab Assessment Fund, DNA Fund, and Auto Fingerprint Identification Fund into one fund designated as the "DPS Forensic Fund," and transfer all balances to the DPS Forensic Fund on July 1, 2018.	1,4,5,8,10,11, 12,13 15,24
21. * As permanent law, appropriate the Fingerprint Clearance Card Fund for crime lab expenses. Any additional monies in the fund would remain non-appropriated resources for the Fingerprint Division.	9
22. * As permanent law, require the Treasurer to deposit directly to the General Fund any monies in the non-appropriated share of the Public Safety Equipment Fund in excess of \$1,200,000.	6
23. * As permanent law, prohibit allocation of any GIITEM General Fund distribution monies to the Maricopa County Sheriff's Office.	7
24. * As session law, allocate \$400,000 from the GIITEM General Fund distribution to the Pima County Sheriff's Office.	16

ENVIRONMENT – CHAPTER 308 (SB 1526)

	<u>Section</u>
Department of Environmental Quality	
25. As session law, continue to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank (UST) Fund in FY 2018 for department administrative expenses.	5
26. As session law, continue to suspend the requirement to appropriate \$15,000,000 from the state General Fund to the Water Quality Assurance Revolving Fund (WQARF). In FY 2018, continue to reduce the General Fund appropriation to \$2,823,600 and appropriate \$4,000,000 from the	7

Vehicle Emissions Inspection Fund, \$2,000,000 from the Air Quality Fund, \$1,000,000 from the Recycling Fund, and \$3,713,300 from the Permit Administration Fund to WQARF, for a total of \$13,536,900. Including collection of \$1,500,000 in non-appropriated funds, total spending capacity for WQARF would be \$15,036,900 in FY 2018

- 27. * As permanent law, redirect the first \$1,800,000 of Public Water System tax revenue (currently used for WQARF) to the Safe Drinking Water Program via a new appropriated Safe Drinking Water Program Fund. 1,2
- 28. As session law, continue the FY 2017 level of vehicle emissions inspection fees in FY 2018 (FY 2017 fees are \$3 less than FY 2016 in Area A, which includes Maricopa County and portions of Pinal and Yavapai Counties.) 9
- 29. * As session law, allow Water Quality Fee Fund monies to be used to fund the Water Quality Monitoring Program in FY 2018 8

Arizona Navigable Stream Adjudication Commission

- 30. As session law, continue to allow use of the Water Banking Fund for the commission’s unpaid legal obligations. 6

Arizona State Parks Board

- 31. As session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs. 4

Department of Water Resources

- 32. 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 2018. 3
- 33. 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 the department from rulemaking for this purpose. 10

HEALTH – CHAPTER 309 (SB 1527)

	<u>Section</u>
AHCCCS	
<i>Rates and Services</i>	
34. 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.	19
35. * As permanent law, add emergency dental benefit up to a maximum of \$1,000 per member per year for AHCCCS adult enrollees.	4
36. * As permanent law, make outpatient occupational therapy a covered service.	4
<i>Counties</i>	
37. As session law, set the FY 2018 county Arizona Long Term Care System (ALTCS) contributions at \$264,673,200.	10
38. As session law, set the County Acute Care contribution at \$46,813,400. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.	15
39. 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.	16
40. As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.	17
41. As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2018 if the counties’ proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.	14
<i>Hospitals</i>	
42. As session law, continue to establish FY 2018 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (MIHS), the Arizona State Hospital, private qualifying	13

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.

43. * As session law, extend the Safety Net Care Pool for a qualifying hospital to 2020. 9

Erroneous Payments

44. As session law, continue to permit AHCCCS to recover erroneous Medicare payments made due to errors by the federal Social Security Administration. Any credits received may be used to pay for the AHCCCS program in the year they are received. 20

Available Funding

45. As session law, continue to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation. 25
46. * As permanent law, clarify that enrollment in the KidsCare program is frozen if the federal match rate falls below 100%. 7, 8

Reports

47. As permanent law, continue to require AHCCCS to submit a report to the JLBC and OSPB by December 1 yearly on utilization of emergency departments for non-emergency use by AHCCCS enrollees. 3
48. As session law, continue to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 2, 2018 on hospital costs and charges. 21
49. As session law, continue to require AHCCCS to report to JLBC on or before January 2, 2018 on the availability of inpatient psychiatric treatment and "psychiatric boarding" in emergency rooms for children and adults enrolled in Arizona's Regional Behavioral Health Authorities. 22
50. As permanent law, continue to require AHCCCS to report by November 1 annually on the feasibility of expanding 340B Drug Discount Program requirements enacted under the FY 2017 budget to hospitals. 5

Department of Economic Security

51. * As permanent law, prohibit DES from reducing the Long Term Care System Fund equity transfer to the General Fund as a result of transfers to the State Long Term Care System Fund. As session law, notwithstanding A.R.S. § 36-2953H to allow DES to expend equity funds on DDD state-only program for FY 2018. Prior to making any such expenditures, DES shall submit an expenditure plan for review to JLBC. 6,18

Department of Health Services

52. 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, in FY 2018. 11
53. As session law, continue to require all cities and counties to pay 100% of cost of Restoration to Competency treatment in FY 2018. Allow counties to use any source of county revenue to make the transfers. 12
54. 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. 24
55. As session law, notwithstanding A.R.S. § 5-572 and A.R.S. § 36-108.01 to allow the Health Services Lottery Monies to be for purposes specified in the General Appropriation Act. 23
56. * As permanent law, create a new Public Health Emergencies Fund. Monies in the fund will be non-lapsing, and DHS will have to report annually on any expenditures from the fund. 1
57. * As permanent law, require the department to submit a proposal to the U.S. Department of Health and Human Services for the state to receive Title X Family Planning monies rather than a non-governmental entity. If the monies are received, distribute the monies according to priority of funding for family planning services established in A.R.S. § 35-196.05. 2

HIGHER EDUCATION – CHAPTER 310 (SB 1528)

	<u>Section</u>
Arizona Community Colleges	
58. As session law, continue to suspend Science, Technology, Engineering and Mathematics and Workforce Programs funding formula and operating state aid for FY 2018 and specify the funding in the General Appropriation Act.	7,8
59. * As permanent law, restore Maricopa and Pima Community College formula funding for both operating and STEM. Due to the other Community College BRB provision, this will not result in additional funding in FY 2018.	1,2
Universities	
60. 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).	6
61. * As session law, require the universities to implement an Arizona Teacher Academy, which shall provide full tuition and fee waivers to enrolled students who agree to teach in an Arizona public school for at least the number of years they were enrolled in the Arizona Teacher Academy. Those who do not fulfill their teaching requirement are required to pay back the proportion of tuition and fee waivers that corresponds to the number of years of teaching requirements they did not fulfill.	4,5
62. * As permanent law, require ABOR to complete a comprehensive study of the cost of educating a resident undergraduate student every five years beginning in FY 2018 and annually issue a report on cost containment measures, tuition rate increases and the allocation of faculty resources between instruction and research.	3

HUMAN SERVICES – CHAPTER 311 (SB 1529)

	<u>Section</u>
Department of Child Safety	
63. 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.	3
64. As session law, require the Auditor General to complete audits of caseworker workload and foster home recruitment and retention.	4
Department of Economic Security	
65. As session law, continue to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.	2
66. 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.	1

K-12 EDUCATION – CHAPTER 304 (HB 2545)

	<u>Section</u>
Department of Education	
<i>JTEDs</i>	
67. 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.	13
<i>Formula Requirements</i>	
68. 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 1.31% for standard inflation.	1,4,5

Funding Formula Changes

- 69. 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 2018 by the amount that would be reduced if they did qualify for state aid for FY 2018 and reduce budget limits accordingly. 10
- 70. As session law, continue to reduce Charter Additional Assistance by \$18,656,000. 11
- 71. As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000. 12

Other

- 72. As session law, continue to stipulate that \$100,000 of the \$3,646,500 School Safety Program appropriation for FY 2018 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program. 9
- 73. As session law, continue to require the department to report to the Governor, President of the Senate and Speaker of the House of Representatives results of the pilot program on school emergency readiness by November 1 of the fiscal year. 9
- 74. As session law, continue the provision in the FY 2017 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. 10
- 75. * As permanent law, require that the department submit its yearly report on the College Credit by Examination Incentive Program to the JLBC for its review and that the report list the amount of bonus funding received by each school. 2
- 76. * As permanent law, establishes the Results-Based Funding Fund. Schools with less than 60% of students eligible for free or reduced-price lunch (FRPL) will receive \$225 per pupil from the fund if the school's AzMerit test scores are within the top 10% of all schools in the state. Schools with 60% or more FRPL-eligibility receive \$400 per student if the school's AzMerit test scores are among the top 10% compared to other schools with 60% or more FRPL-eligibility. Monies in the fund must be used by school districts or charter schools to enhance, expand or replicate the school site that received results-based funding. Replication includes adding student capacity at the awarded school, using resources at a different school in the district to sustain or accelerate academic growth, mentoring other schools and school leaders to replicate the model of an awarded school or to provide other school improvement supports, or physically expanding an awarded school at a different location. The majority of the funding must be expended on teacher salaries, hiring of additional teachers, and teacher professional development. Integrates A-F rating system beginning in FY 2019. Schools will be required to be A-rated to receive results-based funding in FY 2019. 3
- 77. * As permanent law, establish the Early Literacy Grant Program Fund. The fund will be administered by ADE and may be used for programs to improve the reading skills of K-3 students in schools in which at least 90% of students are FRPL-eligible, including reading coaches or specialists, reading curriculum or tutoring programs. ADE shall award the grants on a 3-year cycle on a per-pupil basis, and the grants will be subject to review and approval by the State Board of Education. Monies shall supplement and not supplant existing early literacy programs. 3
- 78. * As session law, notwithstanding A.R.S. § 15-907 to allow Duncan Unified School District to access up to \$700,000 of its own fund balances for a critical infrastructure repair or to purchase or repair pupil transportation vehicles without first applying to the School Facilities Board for Emergency Deficiency Corrections Fund monies, or petitioning the county school superintendent or county board of supervisors and without need of approval from the county board of supervisors. 15
- 79. * As permanent law, establish the Broadband Expansion Fund to provide state matching funds for certified broadband connectivity construction projects in schools, school districts, and libraries. Requires semi-annual reporting and an annual JLBC review. 3
- 80. * As session law, allow Cave Creek Unified School district to increase its general budget limit by \$1,500,000 in FY 2018. 16

School Facilities Board

- 81. * As permanent law, move the application date for new school construction monies by school districts from September 1 annually to July 1, and move SFB's required approval date from March 1 annually to December 1. Requires use of most recent 40th day average daily membership count in determining eligibility for SFB new construction funding. Reduces length of time between new school application and SFB decision to 5 months. 6,7,8,19
- 82. * As session law, notwithstanding A.R.S. § 15-2032 to allow SFB to spend \$200,000 from the Building Renewal Grant Fund for testing lead in school water systems. 14

Commission on Postsecondary Education

- 83. * As session law, create a pilot program that will provide grants to school districts and charter schools to pay fees for college readiness exams, such as the SAT and ACT. The bill appropriates \$235,000 from the General Fund for this program. 17,18

REVENUES – CHAPTER 312 (SB 1531)

Section

Arizona Department of Agriculture

- 84. As session law, continue fee raising authority and an exemption relating to establishing fees for the Arizona Department of Agriculture in FY 2018. The bill continues an intent clause that limits additional revenues to \$357,000. 12

Counties and Cities & Towns

- 85. As session law, continue to allow counties with a population below 250,000 in the 2010 decennial census to use any source of county revenue to meet a county fiscal obligation for FY 2018, up to \$1,250,000 of county revenue for each county. Requires counties using this authority to report to the Director of JLBC on the intended amount and sources of funds by October 1, 2017. 15

Department of Financial Institutions

- 86. As session law, continue to allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department. 14
- 87. As session law, allow the appropriation of \$850,000 from the Receivership Fund to develop and implement the department's new licensing system to be non-lapsing through June 30, 2018. 13

Department of Gaming

- 88. * As session law, set the Racing Wagering Assessment at 0.5% in FY 2018. 7,17

Department of Insurance

- 89. As session law, continue to suspend the requirement that fees collected by the department be between 95% and 110% of the department's appropriation. 10

Department of Liquor Licenses and Control

- 90. As session law, allow funding from FY 2015 and FY 2016 for a new licensing system to be non-lapsing through June 30, 2018. 6,17

Department of Public Safety

- 91. * As session law, deposit \$30,000,000 of HELP Fund monies to local HURF for distributions in FY 2018 and FY 2019. 8
- 92. * As session law, continue the previously approved \$30,000,000 shift of Highway Patrol costs from HURF to the General Fund in FY 2019 and increase the shifted amount to \$60,000,000 in FY 2020. 9

Radiation Regulatory Agency

- 93. As session law, continue fee raising authority and an exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2018. The bill continues an intent clause that limits additional revenues to \$561,000. 11

Department of Revenue

- 94. As session law, continue legislative intent statement that local fees to fund the Department of Revenue (DOR) are not to exceed \$20,755,835 and are to be allocated between cities and towns, counties, the Maricopa Association of Governments and the Pima Association of Governments based on the prorated share of all revenues distributed to them (excluding Highway User Revenue Fund money). 16

Department of Transportation

- 95. * As permanent law, distribute 100% of jet fuel tax to the State Aviation Fund and distribute a portion of Aircraft License Tax to the General Fund and Distribution Base to make the change revenue neutral. 1-5

UNIVERSITY INFRASTRUCTURE CAPITAL FINANCING – CHAPTER 328 (HB 2547)

	<u>Section</u>
Universities	
96. * As permanent law, appropriate \$27,000,000 to the universities each year beginning in FY 2019 through FY 2043, increased annually by the lesser of 2% or inflation, for capital project debt service or cash construction costs (FY 2019 allocations: ASU: \$11,927,400, NAU: \$4,520,900, UA: \$10,551,700).	2
97. * As permanent law, establish a Capital Infrastructure Fund (CIF) for each university, into which the annual appropriation shall be deposited in addition to a 1:1 match from the university.	2
98. * As permanent law, require JCCR review of cash construction projects and JCCR approval or disapproval of debt financed projects funded with CIF monies. Projects must be heard and these relevant actions taken by the second JCCR meeting date after the proposal's submission to JCCR.	2
99. * As permanent law, limit the use of CIF monies to projects totaling less than \$1 billion in debt principal and affirm that the 8% statutory debt service limit applies to all debt service payments funded with CIF monies pursuant to A.R.S. § 15-1683. Exempts bond refinancings from the \$1 billion cap, and requires JCCR review of refinancing.	2
100. * As permanent law, prohibit the use of CIF monies for operating expenditures, facilities used primarily by a professional sports franchise, or to supplant funding of projects reviewed by JCCR prior to April 15, 2017	2
101. * As permanent law, modify A.R.S. § 15-1670 to adjust the university technology transfer royalty and intellectual property income sharing requirements for all agreements entered into beginning May 1, 2017 to use net income in the first 3 years of royalties for a given project and gross revenues each year thereafter and gross revenues from intellectual property sales. Clarify that calculations for projects are based on prior year, not cumulative, amounts, and that deposits to the General Fund shall not exceed the appropriations made to the CIF plus appropriations for research infrastructure pursuant to A.R.S. § 15-1670.	1

GENERAL APPROPRIATION ACT PROVISIONS – CHAPTER 305 (SB 1522)

The budget 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.

	<u>Section</u>
Arizona Commerce Authority	
102. As session law, in accordance with statute (A.R.S. § 43-409), continue to allocate \$21,500,000 of General Fund withholding tax revenue to the Authority in FY 2018.	116

Counties and Cities & Towns

103. As session law, continue to appropriate \$550,050 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. 112
104. * As session law, appropriate \$550,050 in FY 2018 on a one-time basis to all counties with populations over 200,000 people and under 900,000 according to the 2010 Census. 112
105. As session law, continue to appropriate \$8,000,000 to all counties in an amount proportionate to their relative population in the 2010 census to partly offset county cost-sharing for the Department of Juvenile Corrections. 112
106. As session law, in accordance with statute (A.R.S. § 9-601), continue to appropriate \$22,499,000 from the General Fund for the Phoenix Convention Center. 134
107. As session law, continue to provide sales tax revenues to the Rio Nuevo Multipurpose Facility District in accordance with statute (A.R.S. § 42-5031). 135

Department of Education

108. As session law, continue to defer \$930,727,700 in Basic State Aid payments from FY 2018 to FY 2019. Appropriate \$930,727,700 in FY 2019 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, 2018. 145
109. As session law, continue to require school districts to include in the FY 2018 revenue estimates that they use for computing their FY 2018 tax rates the rollover monies that they will receive for FY 2018 in July 2018. 145

Debt Service

110. As session law, continue to appropriate \$84,115,100 from the General Fund to the Arizona Department of Administration in FY 2018 for a debt service payment on the 2010 sale and leaseback of state buildings. 133

Revenues

111. As session law, continue to specify revenue and expenditure estimates for FY 2017, FY 2018, FY 2019, and FY 2020. 154
112. As session law, continue to require the Executive Branch to provide JLBC preliminary estimates of FY 2017 ending balances by September 15, 2017. Require JLBC Staff to report to JLBC by October 15, 2017 as to whether FY 2018 revenues and ending balance are expected to change by more than \$50,000,000 from budgeted projections. 154

Statewide

113. * As session law, reduce the FY 2017 individual agency charges for Attorney General services by \$(4,200) for the Department of Agriculture and \$(6,800) for Geological Survey and continue these reductions in FY 2018 and set the total level of charges at \$1,798,500. 4,149
114. 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. 150
115. As session law, continue to require ADOA to compile a report on Full-Time Equivalent (FTE) Position usage in FY 2018 in all agencies and provide it to the JLBC Director by October 1, 2018. The Universities are exempt from the report but are required to report separately. 151
116. As session law, continue to require each agency to submit a report to the JLBC Director by October 1, 2017 on the number of filled appropriated and non-appropriated FTE Positions by fund source as of September 1, 2017. 152
117. 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. 153

General

118. As session law, continue to define "*" as designating an appropriation exempt from lapsing. 155
119. As session law, continue to define "expenditure authority" as continuously appropriated monies included in individual line items of appropriations. 156

120. 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. 157

MAJOR FOOTNOTE CHANGES

The budget 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.

	<u>Section</u>
Arizona Department of Administration	
121. Retains footnote requiring the department to report by August 1, 2017 on the maintenance savings associated with replacing vehicles with an average of 80,000 miles.	8
122. Adds footnote authorizing the department to use the Risk Management Fund to settle any debts owed to the federal government due to disallowed costs. Only includes debts associated with FY 2016.	104
123. Adds footnote extending the lapsing date of monies allocated for agency relocation costs associated with renovation of the 1740 W Adams Building in the FY 2017 budget to June 30, 2018.	105
Arizona Department of Administration - Automation Projects Fund	
124. Adds footnote extending permission to spend FY 2016 appropriations for the Department of Environmental Quality's e-licensing project through the end of FY 2018.	115
125. Adds footnote extending permission to spend FY 2017 appropriations for information technology projects at the Departments of Administration, Child Safety, Corrections, Economic Security, and Education through the end of FY 2018.	115
126. Adds footnote making the FY 2015 appropriation for DCS' CHILDS replacement project non-lapsing through FY 2018.	115
127. Adds footnote extending the lapsing date of the FY 2016 appropriation for DES IT security project to June 30, 2018. Does not allow the department to divert the FY 2016 and FY 2017 monies for IT Security for a study of any DES automated information system. On or before December 2, 2017, the department shall submit a report for review by JLBC on the status of the department's IT security system.	115
128. Adds footnote re-purposing \$6,100,000 of the FY 2017 appropriation for E-Procurement Project for DCS' CHILDS Replacement project in FY 2018.	1,2
129. Adds footnote allowing a \$1,000,000 Automation Projects Fund allocation from FY 2017 that was originally designated for a feasibility study for replacement of the Department of Revenue's enterprise tax system to lapse into the Liability Setoff Fund.	115
Arizona Health Care Cost Containment System	
130. Adds footnote requiring AHCCCS to submit a report to the Governor, the President of the Senate, the Speaker of the House of Representatives, OSPB, and JLBC on or before February 1, 2018 on the effects of Proposition 206 on the adequacy of the long term care provider network for the Developmental Disabilities program and the Elderly and Physically Disabled program. The analysis would be delineated by geographic service area, and AHCCCS would be required to make recommendations on how to address any deficiencies in network adequacy identified in the report. Includes a \$200,000 appropriation from the Prescription Drug Rebate Fund to conduct the study.	113
Attorney General - Department of Law	
131. Adds footnote prohibiting monies appropriated to the Litigation Expenses line item in the Department of Child Safety's budget from being counted towards the Attorney General's Interagency Service Agreements Fund appropriation in FY 2018.	14
132. Adds footnote appropriating \$1,500,000 from the General Fund to the Criminal Division in FY 2019 and FY 2020.	14

Department of Child Safety

133. Modifies footnote to reduce the department's benchmark for open reports to 8,000. States that the benchmark is based on the average number of incoming reports from March 1, 2016 through February 28, 2017. 19
134. Modifies footnote to establish an out-of-home population benchmark of 15,191 children to be met on or before June 30, 2018. (Same 11.4% reduction requirement from FY 2017 budget) 19
135. Modifies footnote requirement concerning the Moss-Adams audit of the department's financial processes by adding progress updates for JLBC review on or before September 15, 2017 and March 15, 2018. 19
136. Adds footnote requiring that all expenditures from the Retention Pay line item be subject to prior JLBC review. States that it is the intent of the Legislature that monies from this line item be transferred to the department's operating budget in FY 2019. 19
137. Adds footnote delaying the lapsing of backlog privatization monies until June 30, 2018. 107
138. Modifies footnote to extend eligibility for the grandparent stipend to non-grandparent relatives and non-relative caretakers. Requires JLBC review prior to any change in the subsidy or income eligibility. 19

Department of Economic Security

139. Retains footnote permitting the department to use up to \$25,000,000 from the Budget Stabilization Fund for the purpose of providing funding for reimbursement grants. 109

Department of Education

140. Retains footnote from FY 2017 General Appropriation Act that would allow ADE to use a portion of its FY 2018 appropriations for Basic State Aid (BSA) or Additional State Aid (ASA) to fund BSA or ASA shortfalls that occurred in FY 2017, if any, after review by JLBC. 33
141. Adds footnote for a 1.06% teacher pay raise in FY 2018 that will supplement and not supplant other salary adjustments provided by school districts and charter schools. States that it is the intent of the Legislature and the Governor that the monies be used to increase teacher compensation and that funding for an additional 1.06% teacher pay raise shall be included in the FY 2019 budget, for a cumulative increase of 2.12% compared to FY 2017. Teachers must have taught in an Arizona public school in FY 2017 to qualify for funding in FY 2018. A school district or charter school governing board shall take a separate vote on the use of the pay raise monies. ADE shall publicize the scheduling of the vote to teachers on its website at least 10 days before the vote. If the school district or charter school maintains a website, the school district or charter school must also publicize the vote on its website. Members of the school district or charter school governing body must attest that the pay raise will be implemented as part of the signed FY 2018 budget document for each school district or charter school. Adds pay raise monies to a district or charters' Base Support Level (BSL), which will cause non-state aid districts to use local monies to pay for the salary adjustment. Each school district and charter school will calculate the cost of the salary adjustment, which is subject to an independent annual audit. 33
142. Adds footnote establishing a grant program to allow students who have completed at least 50% of a JTED program, but have graduated high school, to complete their JTED program. 33
143. Adds footnote requiring the Office of the Governor to submit a report on or before November 1, 2018 to the President of the Senate and the Speaker of the House on the results of the school leadership training academy. 125
144. Adds footnote requiring JLBC review before ADE can expend an additional \$400,000 from the Empowerment Scholarship Account Administration Fund for operating expenses. 121
145. Adds footnote delineating the distribution of \$2,600,000 for rural assistance. Funding will be provided on a pro rata basis to school districts in counties with populations of less than 500,000 according to the 2010 United States Census, except that a school district or charter school that primarily serves homeless or special needs pupil may qualify for assistance regardless of its location. 123

Arizona State Lottery Commission

146. Modifies footnote reducing the percentage of lottery revenues appropriated for Instant Tickets from 3.6% to 3.05%. 59

Secretary of State

147. Adds footnote requiring that any funds used for a statewide voter registration system shall include all data required to be sent by counties in a manner prescribed by the Secretary of State pursuant to A.R.S. § 16-168. 88

Department of Transportation

148. Modifies footnote to reduce the department's risk management payment to the Arizona Department of Administration (ADOA) by \$(792,500) to \$15,981,300. 92
149. Retains footnote requiring the department to report to JLBC by July 31, 2017 on the cost of linking local governments, state agencies, and other uses to the new Motor Vehicles Division automated system. 92
150. Adds footnote that highway damages may not be credited against the Highway Maintenance line item. A.R.S. § 35-142.01 requires this provision in order that the damages cannot be both credited against the account as well as deposited into the Recovery Subaccount. 92

Universities

151. Adds footnote specifying the allocation of the one-time funding of \$7,369,500 to Arizona State University (ASU) and \$4,157,700 to the University of Arizona (U of A). The sum of \$1,000,000 is dedicated to the School of Civic and Economic Thought at ASU and \$1,000,000 is dedicated to the Center for the Philosophy of Freedom at the U of A. These amounts shall supplement and not supplant funding for each of the freedom schools. 131
152. Adds footnote prohibiting the Universities from expending their General Fund appropriations for contracted lobbyists. 96,97,98, 99,100
153. Deletes footnote requiring the Arizona Board of Regents (ABOR) to allocate \$5,000,000 to the Universities using a performance funding model. Add to the base budget for each university.
154. Deletes footnote stating that it is the intent of the Legislature that ABOR use the adopted performance funding model in developing and submitting budget requests for the Universities.

**FY 2017
GENERAL FUND ADJUSTMENTS**

FY 2017 GENERAL FUND ADJUSTMENTS

	<u>FY 2016 Actual</u>	<u>FY 2017 Original <u>1/</u></u>	<u>Baseline Adjustments</u>	<u>FY 2017 JLBC Baseline</u>	<u>Session Changes</u>	<u>FY 2017 Enacted</u>
REVENUES						
Ongoing Revenues	\$9,822,670,000	10,158,379,200	(117,783,300)	\$10,040,595,900		\$10,040,595,900
Previously Enacted Changes		(97,800,000)	97,800,000 <u>2/</u>			
Newly Enacted Changes		(27,098,600)	27,098,600 <u>2/</u>			
Urban Revenue Sharing	(605,634,300)	(663,652,100)	69,900	(663,582,200)		(663,582,200)
Net Ongoing Revenues	\$9,217,035,700	\$9,369,828,500	\$7,185,200	\$9,377,013,700	\$0	\$9,377,013,700
One-time Financing Sources						
Balance Forward	312,276,000	224,983,500	59,031,500	284,015,000		284,015,000
AHCCCS Behavioral Health Transfer					35,000,000	35,000,000
Prescription Rebate Fund Transfer					30,000,000	30,000,000
Tax Amnesty	47,048,500					
Enacted FY 2017 Fund Transfers	220,296,600	79,361,600		79,361,600		79,361,600
Subtotal One-time Revenues	\$579,621,100	\$304,345,100	\$59,031,500	\$363,376,600	\$65,000,000	\$428,376,600
Total Revenues	\$9,796,656,800	\$9,674,173,600	\$66,216,700	\$9,740,390,300	\$65,000,000	\$9,805,390,300
EXPENDITURES						
Operating Budget Appropriations	\$9,272,520,900	\$9,407,983,700	(\$3,000,000) <u>3/</u>	\$9,404,983,700	\$8,156,600	\$9,413,140,300
Administrative Adjustments		70,000,000	30,000,000	100,000,000		100,000,000
Revertments		(110,682,500)	(29,317,500)	(140,000,000)		(140,000,000)
Subtotal Ongoing Expenditures	\$9,272,520,900	\$9,367,301,200	(\$2,317,500)	\$9,364,983,700	\$8,156,600	\$9,373,140,300
One-time Expenditures						
Capital Outlay	8,120,900	18,000,000		18,000,000		18,000,000
Transportation Funding		86,500,000		86,500,000		86,500,000
Eliminate DCS/DES/Univ. Rollover	232,000,000					
Operating One-Time Spending		136,467,800	3,000,000 <u>3/</u>	139,467,800		139,467,800
FY 2017 One-Time Supplementals			17,305,700	17,305,700		17,305,700
Subtotal One-time Expenditures	\$240,120,900	\$240,967,800	\$20,305,700	\$261,273,500	\$0	\$261,273,500
Total Expenditures	\$9,512,641,800	\$9,608,269,000	\$17,988,200	\$9,626,257,200	\$8,156,600	\$9,634,413,800
Ending Balance <u>4/</u>	\$284,015,000	\$65,904,600	\$48,228,500	\$114,133,100	\$56,843,400	\$170,976,500
Structural Balance <u>5/</u>	(\$55,485,200)	\$2,527,300	\$9,502,700	\$12,030,000	(\$8,156,600)	\$3,873,400

1/ Reflects the FY 2017 Budget as published in the *FY 2017 Appropriations Report*.

2/ Reflects forecast adjustments to revenue and other technical adjustments in January 2017 as part of the FY 2018 JLBC Baseline. Baseline adjustments move previously enacted changes to ongoing revenue.

3/ The *FY 2017 Appropriations Report* originally displayed \$3.0 million of Superior Court Dependency Surge funding as ongoing. The agency subsequently did not request the funding for FY 2018, so the spending was relabeled as one-time in the FY 2018 JLBC Baseline.

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

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

FY 2017 GENERAL FUND ADJUSTMENTS

FY 2017 Budget Revision — The preceding chart illustrates the changes to the FY 2017 budget from the publication of the *FY 2017 Appropriations Report* in June 2016 (incorporating changes through the 52nd Legislature, 2nd Regular Session) to the current estimate in this *FY 2018 Appropriations Report*. The chart includes the changes from the passage of bills in the 1st Regular Session of the 53rd Legislature addressing the FY 2017 budget.

Original Budget Estimate — At the time of the publication of the *FY 2017 Appropriations Report* in June 2016, the FY 2017 budget was anticipated to have a \$66 million surplus.

Mid-Year Surplus — As estimated in January 2017, higher-than-expected revenues together with other changes led to the state’s projected FY 2016 ending balance of \$66 million increasing to \$114 million. The components of this \$48 million shift were as follows:

	<u>(\$ in M)</u>
• Increased FY 2016 Carry-Forward	59
• Increase in FY 2017 Ongoing Revenues	7
• Supplemental FY 2017 Expenditures	<u>(18)</u>
Total	\$48

As enacted in May 2016, the original FY 2017 budget included \$225 million in revenues from a FY 2016 carry-forward balance. The FY 2016 revenue growth at the end of the year, however, was greater than originally budgeted, which produced a FY 2016 ending balance of \$284 million, or \$59 million more than budgeted.

A small revision to FY 2017 growth rates based on the January consensus forecast increased revenues by \$10 million, which was partially offset by revisions to tax law estimates totaling \$(3) million, for a net increase in FY 2017 ongoing revenues of \$7 million.

Finally, the budget was estimated to require an additional \$18 million in spending, including \$17 million for higher-than-projected K-12 spending in the Department of Education, \$224,500 in the Land Department, and \$1 million for higher-than-expected net administrative adjustments.

2017 Legislative Session — Laws 2017, Chapter 305, the General Appropriation Act, made a series of changes in the FY 2017 budget. These adjustments increased the projected ending balance of \$114 million to \$171 million, the result of one-time revenues partially offset by additional FY 2017 supplemental spending.

The budget includes \$65 million in one-time fund transfers from 2 Medicaid-related funds in AHCCCS:

- \$35 million from balances in behavioral health funds
- \$30 million from balances in prescription drug rebate funds

The budget also includes \$8 million in supplemental spending in the Department of Economic Security (DES) for costs associated with minimum wage requirements in Proposition 206 in developmental disabilities and aging programs.

(Please see the DES and AHCCCS narratives for further details.)

With an estimated FY 2017 ending balance in January of \$114 million, \$65 million in new one-time revenues and \$8 million in subsequent spending, the FY 2017 budget is estimated to have an ending balance of \$171 million.

Other Fund Adjustments — The FY 2017 revisions included \$65 million in net Other Fund supplementals. The largest supplementals were \$63 million in federal CHIP Fund monies for AHCCCS for KidsCare costs, \$3 million from the Risk Management Fund in the Department of Administration for federal reimbursements, and \$1.5 million from the State Parks Revenue Fund for major maintenance and emergency repairs at State Parks.

FY 2017 GENERAL FUND CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	GF FY 2017 Approp Rpt June 2016	GF Adjustments	GF FY 2017 Supplementals 2/	GF Enacted FY 2017
<u>BUDGET UNITS</u>				
Administration, Arizona Department of	\$10,264,500			\$10,264,500
Administration, Arizona Department of Automation Projects Fund	14,881,600			14,881,600
Administrative Hearings, Office of	860,500			860,500
African-American Affairs, Arizona Commission of	125,000			125,000
Agriculture, Arizona Department of	9,162,700			9,162,700
AHCCCS	1,750,941,400			1,750,941,400
Attorney General - Department of Law	24,664,800			24,664,800
Charter Schools, State Board for	1,185,200			1,185,200
Child Safety, Department of	379,179,400			379,179,400
Commerce Authority, Arizona	21,800,000			21,800,000
Community Colleges, Arizona	54,312,700			54,312,700
Corporation Commission	2,611,600			2,611,600
Corrections, State Department of	1,046,682,600		6,900 3/	1,046,689,500
County Funding	14,000,500			14,000,500
Deaf and the Blind, Schools for the	21,378,100			21,378,100
Economic Opportunity, Office of	1,068,700			1,068,700
Economic Security, Department of	530,124,400		8,147,800 4/	538,272,200
Education, State Board of	1,094,000			1,094,000
Education, Department of	4,069,375,800		17,081,200 5/	4,086,457,000
Emergency and Military Affairs, Department of	12,619,500			12,619,500
Environmental Quality, Department of	2,823,600			2,823,600
Equal Opportunity, Governor's Office of	189,100			189,100
Equalization, State Board of	643,000			643,000
Executive Clemency, Board of	952,600			952,600
Financial Institutions, State Department of	2,978,200			2,978,200
Forestry and Fire Management, Arizona Department of	10,442,800			10,442,800
Gaming, Department of	1,979,500			1,979,500
Governor, Office of the	6,849,900			6,849,900
Governor's Office of Strategic Planning and Budgeting	1,994,000			1,994,000
Health Services, Department of	86,551,700		1,900 3/	86,553,600
Historical Society, Arizona	2,722,900			2,722,900
Historical Society, Prescott	824,500			824,500
Housing, Department of	811,400			811,400
Independent Redistricting Commission	1,115,300			1,115,300
Insurance, Department of	5,824,300			5,824,300
Judiciary				
Supreme Court	19,219,500			19,219,500
Court of Appeals	14,280,400			14,280,400
Superior Court	79,517,800			79,517,800
SUBTOTAL - Judiciary	113,017,700	0	0	113,017,700
Juvenile Corrections, Department of	24,180,400			24,180,400

	GF FY 2017 Approp Rpt June 2016	GF Adjustments	GF FY 2017 Supplementals 2/	GF Enacted FY 2017
Land Department, State	12,491,400		224,500 6/	12,715,900
Legislature				
Auditor General	18,066,500			18,066,500
House of Representatives	13,201,500			13,201,500
Joint Legislative Budget Committee	2,488,300			2,488,300
Legislative Council	8,215,400			8,215,400
Senate	9,408,500			9,408,500
SUBTOTAL - Legislature	51,380,200	0	0	51,380,200
Mine Inspector, State	1,212,500			1,212,500
Navigable Stream Adjudication Commission	124,000			124,000
Postsecondary Education, Commission for	1,396,800			1,396,800
Public Safety, Department of	121,195,700			121,195,700
Public Safety Personnel Retirement System	6,000,000			6,000,000
Radiation Regulatory Agency	1,563,100			1,563,100
Real Estate Department, State	2,994,900			2,994,900
Revenue, Department of	31,998,300			31,998,300
School Facilities Board	228,094,400			228,094,400
Secretary of State	14,969,200			14,969,200
Tax Appeals, State Board of	266,600			266,600
Tourism, Office of	7,112,000			7,112,000
Transportation, Department of	50,400			50,400
Treasurer, State	1,205,100			1,205,100
Tribal Relations, Governor's Office on	57,500			57,500
Universities				
Board of Regents	21,928,400			21,928,400
Arizona State University - Tempe/DPC	253,541,200	110,700 7/		253,651,900
Arizona State University - East Campus	22,575,300	(52,200) 7/		22,523,100
Arizona State University - West Campus	29,281,100	(58,500) 7/		29,222,600
Northern Arizona University	105,227,000			105,227,000
University of Arizona - Main Campus	197,059,600			197,059,600
University of Arizona - Health Sciences Center	68,859,800			68,859,800
SUBTOTAL - Universities	698,472,400	0	0	698,472,400
Veterans' Services, Department of	6,054,100			6,054,100
Water Resources, Department of	13,012,600			13,012,600
OPERATING BUDGET TOTAL	\$9,429,885,100	\$0	\$25,462,300	\$9,455,347,400
Capital Outlay Projects	18,000,000			18,000,000
Debt Service Payments	84,117,400			84,117,400
Civic Center Debt Service	20,449,000			20,449,000
Rio Nuevo Distribution	10,000,000			10,000,000
State Highway Transportation Funding	56,500,000			56,500,000
Local HURF Transportation Funding	30,000,000			30,000,000
Administrative Adjustments	70,000,000	30,000,000		100,000,000
Revertments	(110,682,500)	(29,317,500)		(140,000,000)
GRAND TOTAL	\$9,608,269,000	\$682,500	\$25,462,300	\$9,634,413,800

GF FY 2017 Approp Rpt June 2016	GF Adjustments	GF FY 2017 Supplementals <u>2/</u>	GF Enacted FY 2017
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- 1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2017 Appropriations Report* and its final FY 2017 appropriation, excluding capital appropriations.
- 2/ Reflects changes enacted in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) and additional appropriations in the 1st Regular Session. Any supplementals enacted prior to the 1st Regular Session are reflected in the Adjustments column. (There were no supplementals in this category for FY 2017.)
- 3/ Appropriated by Laws 2017, Chapter 17, the Named Claimants Bill.
- 4/ Section 108 of the FY 2018 General Appropriation Act.
- 5/ Section 110 of the FY 2018 General Appropriation Act.
- 6/ Section 111 of the FY 2018 General Appropriation Act.
- 7/ Arizona State University's (ASU) FY 2017 statewide adjustments were revised after publication of the *FY 2017 Appropriations Report* to reflect a change in the methodology used to allocate Health Insurance Trust Fund savings by campus.

FY 2017 OTHER FUNDS CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals <u>2/</u>	OF Enacted FY 2017
<u>BUDGET UNITS</u>				
Accountancy, State Board of				
Board of Accountancy Fund	\$1,937,000			\$1,937,000
Acupuncture Board of Examiners				
Acupuncture Board of Examiners Fund	178,500			178,500
Administration, Arizona Department of				
Air Quality Fund	927,300			927,300
Arizona Financial Information System Collections Fund	9,406,300			9,406,300
Automation Operations Fund	23,937,600			23,937,600
Capital Outlay Stabilization Fund	18,069,600			18,069,600
Corrections Fund	570,400			570,400
Federal Surplus Materials Revolving Fund	464,500			464,500
Information Technology Fund	3,436,000			3,436,000
Motor Vehicle Pool Revolving Fund	10,151,300			10,151,300
Personnel Division Fund	12,857,900			12,857,900
Risk Management Revolving Fund	93,046,300		3,221,500 <u>3/4/</u>	96,267,800
Special Employee Health Insurance Trust Fund	5,256,100			5,256,100
Special Services Revolving Fund	592,200			592,200
State Surplus Materials Revolving Fund	2,947,000			2,947,000
State Web Portal Fund	4,542,400			4,542,400
Telecommunications Fund	2,020,100			2,020,100
Total - Arizona Department of Administration	<u>188,225,000</u>	<u>0</u>	<u>3,221,500</u>	<u>191,446,500</u>
Administration, Arizona Department of -				
Automation Projects Fund	47,774,700		(3,000,000) <u>5/</u>	44,774,700
Agriculture, Arizona Department of				
Air Quality Fund	1,434,400			1,434,400
Pest Management Trust Fund	1,695,500	(1,695,500) <u>6/</u>		0
Total - Arizona Department of Agriculture	<u>3,129,900</u>	<u>(1,695,500)</u>	<u>0</u>	<u>1,434,400</u>
AHCCCS				
Budget Neutrality Compliance Fund	3,563,300			3,563,300
Children's Health Insurance Program Fund	3,674,900		63,225,800 <u>7/</u>	66,900,700
Prescription Drug Rebate Fund - State	113,778,900			113,778,900
Substance Abuse Services Fund	2,250,200			2,250,200
Tobacco Products Tax Fund Emergency Health Services Account	18,747,200			18,747,200
Tobacco Tax and Health Care Fund Medically Needy Account	72,998,200			72,998,200
Total - AHCCCS	<u>215,012,700</u>	<u>0</u>	<u>63,225,800</u>	<u>278,238,500</u>
Arts, Arizona Commission on the				
Budget Stabilization Fund	1,500,000			1,500,000
Athletic Training, Board of				

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals 2/	OF Enacted FY 2017
Athletic Training Fund	119,100			119,100
Attorney General - Department of Law				
Antitrust Enforcement Revolving Fund	244,300			244,300
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,080,400			2,080,400
Collection Enforcement Revolving Fund	6,845,200			6,845,200
Consumer Protection-Consumer Fraud Rev. Fund	5,575,700			5,575,700
Interagency Service Agreements Fund	15,508,500	800,000 8/		16,308,500
Internet Crimes Against Children Enforcement Fund	900,000			900,000
Risk Management Revolving Fund	9,406,700			9,406,700
Victims' Rights Fund	3,758,900			3,758,900
Total - Attorney General - Department of Law	<u>44,319,700</u>	<u>800,000</u>	<u>0</u>	<u>45,119,700</u>
Automobile Theft Authority				
Automobile Theft Authority Fund	5,295,500			5,295,500
Barbers, Board of				
Board of Barbers Fund	370,700			370,700
Behavioral Health Examiners, Board of				
Board of Behavioral Health Examiners Fund	1,759,100			1,759,100
Child Safety, Department of				
Child Abuse Prevention Fund	1,459,300			1,459,300
Children and Family Services Training Program Fund	207,100			207,100
Federal Child Care and Development Fund Block Grant	27,000,000			27,000,000
Federal Temporary Assistance for Needy Families Block Grant	149,472,700			149,472,700
Total - Department of Child Safety	<u>178,139,100</u>	<u>0</u>	<u>0</u>	<u>178,139,100</u>
Chiropractic Examiners, State Board of				
Board of Chiropractic Examiners Fund	451,100			451,100
Contractors, Registrar of				
Registrar of Contractors Fund	12,165,400			12,165,400
Corporation Commission				
Arizona Arts Trust Fund	49,900			49,900
Investment Management Regulatory and Enforcement Fund	708,900			708,900
Public Access Fund	6,558,800			6,558,800
Securities Regulatory and Enforcement Fund	4,909,600			4,909,600
Utility Regulation Revolving Fund	14,098,400			14,098,400
Total - Corporation Commission	<u>26,325,600</u>	<u>0</u>	<u>0</u>	<u>26,325,600</u>
Corrections, State Department of				
Alcohol Abuse Treatment Fund	555,500			555,500
Corrections Fund	30,317,800			30,317,800
Penitentiary Land Fund	979,300			979,300
Prison Construction and Operations Fund	13,686,300			13,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,500			1,861,500

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals 2/	OF Enacted FY 2017
State Education Fund for Correctional Education	669,500			669,500
Transition Program Fund	2,400,100			2,400,100
Total - State Department of Corrections	<u>50,470,000</u>	<u>0</u>	<u>0</u>	<u>50,470,000</u>
Cosmetology, Board of				
Board of Cosmetology Fund	1,805,200			1,805,200
Criminal Justice Commission, Arizona				
Criminal Justice Enhancement Fund	646,600			646,600
Drug and Gang Prevention Resource Center Fund	604,500			604,500
State Aid to County Attorneys Fund	973,700			973,700
Victim Compensation and Assistance Fund	4,220,600			4,220,600
Total - Arizona Criminal Justice Commission	<u>6,445,400</u>	<u>0</u>	<u>0</u>	<u>6,445,400</u>
Deaf and the Blind, Arizona Schools for the				
Schools for the Deaf and the Blind Fund	11,677,700			11,677,700
Deaf and the Hard of Hearing, Comm. for the				
Telecommunication Fund for the Deaf	4,309,500			4,309,500
Dental Examiners, State Board of				
Dental Board Fund	1,214,500			1,214,500
Economic Security, Department of				
Child Support Enforcement Administration				
Fund	16,632,600			16,632,600
Domestic Violence Services Fund	4,000,000			4,000,000
Federal Child Care and Development Fund				
Block Grant	107,773,600			107,773,600
Federal Temporary Assistance for Needy				
Families Block Grant	72,964,700			72,964,700
Health Services Lottery Monies Fund	700,000			700,000
Long Term Care System Fund	26,559,600			26,559,600
Public Assistance Collections Fund	421,900			421,900
Special Administration Fund	5,528,700			5,528,700
Spinal and Head Injuries Trust Fund	2,323,700			2,323,700
Statewide Cost Allocation Plan Fund	1,000,000			1,000,000
Workforce Investment Act Grant	56,040,200			56,040,200
Total - Department of Economic Security	<u>293,945,000</u>	<u>0</u>	<u>0</u>	<u>293,945,000</u>
Education, Department of				
Department of Education Empowerment				
Scholarship Account Fund	797,900			797,900
Department of Education Professional				
Development Revolving Fund	2,700,000			2,700,000
Permanent State School Fund	219,804,200			219,804,200
Proposition 301 Fund	7,000,000			7,000,000
Teacher Certification Fund	2,342,700			2,342,700
State Web Portal Fund	500,000			500,000
Tribal College Dual Enrollment Program Fund	250,000			250,000
Total - Department of Education	<u>233,394,800</u>	<u>0</u>	<u>0</u>	<u>233,394,800</u>

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals 2/	OF Enacted FY 2017
Environmental Quality, Department of				
Air Quality Fund	8,236,400			8,236,400
Emergency Response Fund	132,800			132,800
Emissions Inspection Fund	32,620,500			32,620,500
Hazardous Waste Management Fund	1,734,600			1,734,600
Indirect Cost Recovery Fund	13,375,200			13,375,200
Permit Administration Fund	7,114,100			7,114,100
Recycling Fund	1,352,900			1,352,900
Solid Waste Fee Fund	1,239,000			1,239,000
Underground Storage Tank Fund Revolving Fund	22,000			22,000
Water Quality Fee Fund	10,507,400			10,507,400
Total - Department of Environmental Quality	<u>76,334,900</u>	<u>0</u>	<u>0</u>	<u>76,334,900</u>
Exposition and State Fair Board, Arizona				
Arizona Exposition and State Fair Fund	11,613,300			11,613,300
Financial Institutions, Department of				
Board of Appraisal Fund	815,100			815,100
Financial Services Fund	1,453,000			1,453,000
Total - Department of Financial Institutions	<u>2,268,100</u>	<u>0</u>	<u>0</u>	<u>2,268,100</u>
Funeral Directors and Embalmers, Board of				
Board of Funeral Directors' and Embalmers' Fund	373,300			373,300
Game and Fish Department, Arizona				
Capital Improvement Fund	1,001,200			1,001,200
Game and Fish Fund	35,687,600			35,687,600
Game, Nongame, Fish and Endangered Species Fund	345,800			345,800
Watercraft Licensing Fund	5,187,800			5,187,800
Wildlife Endowment Fund	16,200			16,200
Total - Arizona Game and Fish Department	<u>42,238,600</u>	<u>0</u>	<u>0</u>	<u>42,238,600</u>
Gaming, Department of				
Tribal-State Compact Fund	2,081,800			2,081,800
Racing Regulation Fund	2,886,000			2,886,000
State Lottery Fund	300,000			300,000
Arizona Benefits Fund	11,050,900			11,050,900
Total - Department of Gaming	<u>16,318,700</u>	<u>0</u>	<u>0</u>	<u>16,318,700</u>
Health Services, Department of				
Arizona State Hospital Fund	9,562,000		1,000 3/	9,563,000
ASH Land Earnings Fund	880,100			880,100
Capital Outlay Stabilization Fund	1,559,900			1,559,900
Child Fatality Review Fund	94,700			94,700
Disease Control Research Fund	250,000			250,000
Emergency Medical Services Operating Fund	5,357,900			5,357,900
Environmental Laboratory Licensure Revolving Fund	924,200			924,200
Federal Child Care and Development Fund Block Grant	872,300			872,300

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals 2/	OF Enacted FY 2017
Health Services Licensing Fund	9,232,300			9,232,300
Indirect Cost Fund	8,546,100			8,546,100
Newborn Screening Program Fund	7,130,100			7,130,100
Nursing Care Institution Resident Protection Revolving Fund	138,200			138,200
Tobacco Tax and Health Care Fund Health Research Account	4,000,000			4,000,000
Tobacco Tax and Health Care Fund Medically Needy Account	700,000			700,000
Vital Records Electronic Systems Fund	3,619,500			3,619,500
Total - Department of Health Services Homeopathic and Integrated Medicine	<u>52,867,300</u>	<u>0</u>	<u>1,000</u>	<u>52,868,300</u>
Examiners, Board of Board of Homeopathic and Integrated Medicine Examiners' Fund	103,000			103,000
Housing, Department of Housing Trust Fund	318,500			318,500
Industrial Commission of Arizona Administrative Fund	19,881,300			19,881,300
Judiciary - Supreme Court				
Confidential Intermediary and Fiduciary Fund	488,900			488,900
Court Appointed Special Advocate Fund	2,943,200			2,943,200
Criminal Justice Enhancement Fund	4,365,200			4,365,200
Defensive Driving School Fund	4,198,500			4,198,500
Health Services Lottery Monies Fund	250,000			250,000
Judicial Collection Enhancement Fund	14,017,900			14,017,900
State Aid to the Courts Fund	2,945,100			2,945,100
Total - Judiciary - Supreme Court	<u>29,208,800</u>	<u>0</u>	<u>0</u>	<u>29,208,800</u>
Judiciary - Superior Court				
Criminal Justice Enhancement Fund	5,435,200			5,435,200
Judicial Collection Enhancement Fund	6,015,200			6,015,200
Drug Treatment and Education Fund	502,900			502,900
Total - Judiciary - Superior Court	<u>11,953,300</u>	<u>0</u>	<u>0</u>	<u>11,953,300</u>
SUBTOTAL - Judiciary	<u>41,162,100</u>	<u>0</u>	<u>0</u>	<u>41,162,100</u>
Juvenile Corrections, Department of				
Criminal Justice Enhancement Fund	531,500			531,500
Department of Juvenile Corrections Local Cost Sharing Fund	11,260,000			11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,100			2,000,100
State Education Fund for Committed Youth	1,588,200			1,588,200
Total - Department of Juvenile Corrections	<u>15,379,800</u>	<u>0</u>	<u>0</u>	<u>15,379,800</u>
Land Department, State				
Due Diligence Fund	500,000			500,000
Environmental Special Plate Fund	260,600			260,600

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals <u>2/</u>	OF Enacted FY 2017
Trust Land Management Fund	4,036,500		225,000 <u>9/</u>	4,261,500
Total - State Land Department	4,797,100	0	225,000	5,022,100
Legislature				
Legislative Council				
Telecommunication Fund for the Deaf	250,000			250,000
Liquor Licenses and Control, Department of				
Liquor Licenses Fund	3,007,400			3,007,400
Lottery Commission, Arizona State				
State Lottery Fund	113,437,800	(212,700) <u>10/</u>		113,225,100
Massage Therapy, Board of				
Board of Massage Therapy Fund	470,100			470,100
Medical Board, Arizona				
Arizona Medical Board Fund	6,463,600			6,463,600
Mine Inspector, State				
Aggregate Mining Reclamation Fund	112,900			112,900
Naturopathic Physicians Medical Board				
Naturopathic Physicians Medical Board Fund	184,200			184,200
Navigable Stream Adjudication Commission				
Arizona Water Banking Fund	200,000			200,000
Nursing, State Board of				
Board of Nursing Fund	4,784,800			4,784,800
Nursing Care Institution Administrators Board				
Nursing Care Institution Administrators'				
Licensing and Assisted Living Facility				
Managers' Certification Fund	445,400			445,400
Occupational Therapy Examiners, Board of				
Occupational Therapy Fund	170,700			170,700
Opticians, State Board of Dispensing				
Board of Dispensing Opticians Fund	140,000			140,000
Optometry, State Board of				
Board of Optometry Fund	210,100			210,100
Osteopathic Examiners, Arizona Board of				
Board of Osteopathic Examiners Fund	940,500			940,500
Parents Comm. on Drug Education & Prevention, AZ				
Drug Treatment and Education Fund	300,000			300,000
Parks Board, Arizona State				
State Parks Revenue Fund	14,486,900		1,500,000 <u>11/</u>	15,986,900
Personnel Board, State				
Personnel Board Subaccount of the				
Personnel Division Fund	375,300			375,300
Pharmacy, Arizona State Board of				
Arizona State Board of Pharmacy Fund	2,135,200			2,135,200
Physical Therapy, Board of				
Board of Physical Therapy Fund	484,200			484,200
Pioneers' Home, Arizona				

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals 2/	OF Enacted FY 2017
Miners' Hospital for Miners with Disabilities Fund	2,028,900			2,028,900
State Charitable Fund	4,145,700			4,145,700
Total - Arizona Pioneers' Home	6,174,600	0	0	6,174,600
Podiatry Examiners, State Board of Podiatry Fund	148,400			148,400
Postsecondary Education, Commission for Postsecondary Education Fund	1,534,100			1,534,100
Private Postsecondary Education, Board for Board for Private Postsecondary Education Fund	396,100			396,100
Psychologist Examiners, State Board of Board of Psychologist Examiners Fund	475,400			475,400
Public Safety, Department of Arizona Deoxyribonucleic Acid Identification System Fund	4,969,600			4,969,600
Arizona Highway Patrol Fund	24,113,100			24,113,100
Arizona Automated Fingerprint Identification System Fund	2,910,200			2,910,200
Automobile Theft Authority Fund	3,000,000			3,000,000
Concealed Weapons Permit Fund	3,489,000			3,489,000
Crime Laboratory Assessment Fund	870,200			870,200
Crime Laboratory Operations Fund	13,597,300			13,597,300
Criminal Justice Enhancement Fund	2,860,500			2,860,500
Drug and Gang Prevention Resource Center Fund	1,000,000			1,000,000
GIITEM Border Security and Law Enforcement Subaccount	2,527,700			2,527,700
Highway User Revenue Fund	96,006,100			96,006,100
Motorcycle Safety Fund	205,000			205,000
Parity Compensation Fund	2,129,400			2,129,400
Public Safety Equipment Fund	2,893,700			2,893,700
Risk Management Revolving Fund	1,263,700			1,263,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,551,800			1,551,800
State Aid to Indigent Defense Fund	700,000			700,000
State Highway Fund	7,301,800			7,301,800
Total - Department of Public Safety	171,389,100	0	0	171,389,100
Radiation Regulatory Agency State Radiologic Technologist Certification Fund	271,600			271,600
Radiation Regulatory Fee Fund	576,500			576,500
Total - Radiation Regulatory Agency	848,100	0	0	848,100
Residential Utility Consumer Office Residential Utility Consumer Office Revolving Fund	1,331,400			1,331,400
Respiratory Care Examiners, Board of				

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals <u>2/</u>	OF Enacted FY 2017
Board of Respiratory Care Examiners Fund	300,300			300,300
Retirement System, Arizona State				
Long-Term Disability Trust Fund Administration				
Account	2,800,000			2,800,000
Arizona State Retirement System Administration				
Account	24,684,200			24,684,200
Total - Arizona State Retirement System	<u>27,484,200</u>	<u>0</u>	<u>0</u>	<u>27,484,200</u>
Revenue, Department of				
Department of Revenue Administrative Fund	45,158,700			45,158,700
Liability Setoff Program Revolving Fund	397,900			397,900
Tobacco Tax and Health Care Fund	678,300			678,300
Total - Department of Revenue	<u>46,234,900</u>	<u>0</u>	<u>0</u>	<u>46,234,900</u>
Secretary of State				
Election Systems Improvement Fund	2,941,100			2,941,100
Records Services Fund	740,400			740,400
Total - Secretary of State	<u>3,681,500</u>	<u>0</u>	<u>0</u>	<u>3,681,500</u>
Technical Registration, State Board of				
Technical Registration Fund	2,916,400			2,916,400
Transportation, Department of				
Air Quality Fund	161,700			161,700
Driving Under the Influence Abatement Fund	152,200			152,200
Highway User Revenue Fund	649,700			649,700
Motor Vehicle Liability Insurance				
Enforcement Fund	1,308,700			1,308,700
Safety Enforcement and Transportation				
Infrastructure Fund - Department of				
Transportation Subaccount	1,868,300			1,868,300
State Aviation Fund	1,615,800			1,615,800
State Highway Fund	348,128,300		6,400 <u>3/</u>	348,134,700
Transportation Department Equipment Fund	18,474,600			18,474,600
Vehicle Inspection and Certificate of Title				
Enforcement Fund	1,450,200			1,450,200
Total - Department of Transportation	<u>373,809,500</u>	<u>0</u>	<u>6,400</u>	<u>373,815,900</u>
Treasurer, State				
Law Enforcement and Boating Safety Fund	2,183,800			2,183,800
State Treasurer Empowerment Scholarship				
Account Fund	79,400			79,400
State Treasurer's Operating Fund	2,559,300			2,559,300
State Treasurer's Management Fund	195,600			195,600
Total - State Treasurer	<u>5,018,100</u>	<u>0</u>	<u>0</u>	<u>5,018,100</u>
Universities				
Arizona State University - Tempe/DPC				
University Collections Fund	551,220,900	41,905,300 <u>12/</u>		593,126,200
Arizona State University - East Campus				
University Collections Fund	35,722,900	6,580,400 <u>12/</u>		42,303,300

	OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals 2/	OF Enacted FY 2017
Technology and Research Initiative Fund	2,000,000			2,000,000
Total - Arizona State University - East Campus	37,722,900	6,580,400	0	44,303,300
Arizona State University - West Campus				
University Collections Fund	44,241,400	(50,900) 12/		44,190,500
Technology and Research Initiative Fund	1,600,000			1,600,000
Total - Arizona State University - West Campus	45,841,400	(50,900)	0	45,790,500
Northern Arizona University				
University Collections Fund	145,286,600	1,996,700 12/		147,283,300
University of Arizona - Main Campus				
University Collections Fund	361,149,600	43,991,500 12/		405,141,100
University of Arizona - Health Sciences Center				
University Collections Fund	44,053,800	3,437,600 12/		47,491,400
SUBTOTAL - Universities	1,185,275,200	97,860,600	0	1,283,135,800
Veterans' Services, Department of				
State Veterans' Conservatorship Fund	899,200			899,200
State Home for Veterans Trust Fund	31,147,600			31,147,600
Total - Department of Veterans' Services	32,046,800	0	0	32,046,800
Veterinary Medical Examining Board				
Veterinary Medical Examining Board Fund	651,900			651,900
Water Resources, Department of				
Assured and Adequate Water Supply Admin Fund	266,300			266,300
Water Resources Fund	641,400			641,400
Water Banking Fund	1,211,400			1,211,400
Total - Department of Water Resources	2,119,100	0	0	2,119,100
OPERATING BUDGET TOTAL	3,624,055,400	96,752,400	\$65,179,700	\$3,785,987,500
AFIS Systems Collections	3,000			3,000
HITF Employer Rate Reduction	(4,622,500)			(4,622,500)
Agency Relocation	576,800 13/			576,800
Capital Outlay Projects	333,217,500			333,217,500
GRAND TOTAL	3,953,230,200	96,752,400	\$65,179,700	\$4,115,162,300

FY 2017 EXPENDITURE AUTHORITY CROSSWALK - ORIGINAL TO FINAL ESTIMATES

AHCCCS	\$9,413,853,700	\$138,345,300 14/	\$66,454,800 7/	9,618,653,800
Child Safety, Department of	415,269,400	0	0	415,269,400
Economic Security, Department of	944,109,100	0	17,739,200 15/	961,848,300
GRAND TOTAL	\$10,773,232,200	\$138,345,300	\$84,194,000	\$10,995,771,500

OF FY 2017 Approp Rpt June 2016	OF Adjustments	OF FY 2017 Supplementals <u>2/</u>	OF Enacted FY 2017
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- 1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2017 Appropriations Report* and its final FY 2017 appropriation, excluding capital appropriations.
- 2/ Reflects changes enacted in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) and additional appropriations in the 1st Regular Session. Any supplementals enacted prior to the 1st Regular Session are reflected in the Adjustments column.
- 3/ Appropriated by Laws 2017, Chapter 17, the Named Claimants Bill.
- 4/ Section 104 of the FY 2018 General Appropriation Act.
- 5/ Section 2 of the FY 2018 General Appropriation Act.
- 6/ The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$1,695,500 and 30 FTE Positions from the Pest Management Fund in FY 2017 for the Office of Pest Management. Laws 2016, Chapter 221 subsequently transferred the Office of Pest Management to the Department of Agriculture (ADA) creating the Division of Pest Management within ADA as of July 1, 2016. Chapter 221 converted the Pest Management Fund into the Pest Management Trust Fund, establishing the Trust Fund as a non-appropriated fund. The *FY 2017 Appropriations Report* displayed the Pest Management Fund as appropriated because the appropriation provided in Chapter 117 occurred before the statutory changes made by Chapter 221. The statutory changes included in Chapter 221 converted the Pest Management Trust Fund to a non-appropriated fund.
- 7/ Section 106 of the FY 2018 General Appropriation Act.
- 8/ In November, the Attorney General notified the JLBC that it expected to use its full FY 2017 ISA Fund appropriation of \$15,508,500 and would also need to use 6 FTE Positions of the total 11 FTE Positions and the entire \$800,000 reserve appropriation provided in a FY 2017 General Appropriation Act footnote.
- 9/ Section 111 of the FY 2018 General Appropriation Act.
- 10/ Revised Lottery forecast.
- 11/ Appropriated by the FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306).
- 12/ Reflects tuition collections receipts above the amount appropriated by the Legislature in FY 2017. A footnote in the FY 2017 General Appropriation Act appropriated any tuition collections receipts above the appropriated amount to the university.
- 13/ Section 105 of the FY 2018 General Appropriation Act makes this appropriation exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until June 30, 2018.
- 14/ Pursuant to footnotes in the FY 2017 General Appropriation Act, appropriations of FY 2017 expenditure authority were increased to reflect excess payments made to Graduate Medical Education hospitals and nursing facilities.
- 15/ Section 108 of the FY 2018 General Appropriation Act.

**JLBC STAFF AND
AGENCY DIRECTORY LISTINGS**

JOINT LEGISLATIVE BUDGET COMMITTEE

The Joint Legislative Budget Committee was established in 1966 pursuant to Laws 1966, Chapter 96. The primary powers and duties of the JLBC relate to ascertaining facts and making recommendations to the Legislature regarding all facets of the state budget, state revenues and expenditures, future fiscal needs, and the organization and functions of state government. The following members serve on the Committee during the 53rd Legislature:

Representative Don Shooter Chairman 2017	Senator Debbie Lesko Chairman 2018
Representative John M. Allen	Senator Olivia Cajero Bedford
Representative Lela Alston	Senator Steve Farley
Representative Russell "Rusty" Bowers	Senator David C. Farnsworth
Representative Charlene R. Fernandez	Senator Katie Hobbs
Representative Vince Leach	Senator John Kavanagh
Representative David Livingston	Senator Warren Petersen
Representative Michelle Ugenti-Rita	Senator Kimberly Yee

The objectives and major products of the staff of the JLBC are:

- Analysis and recommendations for the state budget, which is presented in January of each year.
- Technical, analytical, and preparatory support in the development of appropriations bills considered by the Legislature.
- Periodic economic and state revenue forecasts.
- Preparation of fiscal notes on legislation and ballot propositions that have a fiscal impact on the state or any of its political subdivisions.
- An annual *Appropriations Report*, which is published shortly after the budget is completed and provides detail on the budget along with an explanation of legislative intent.
- Support to the JLBC with respect to recommendations on business items placed on the committee's agenda such as transfers of appropriations pursuant to A.R.S. § 35-173.
- Support to the Joint Committee on Capital Review (JCCR) with respect to all capital outlay issues including land acquisition, new construction, and building renewal projects.
- Analyze the state tax structure, tax burdens on individuals and businesses and tax incentives for businesses pursuant to A.R.S. § 41-1272A4.

Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007
Phone: (602) 926-5491
Email: jlbcwebmaster@azleg.gov
Website: <http://www.azleg.gov/jlbc.htm>

JOINT COMMITTEE ON CAPITAL REVIEW

The Joint Committee on Capital Review (JCCR) was first established on April 11, 1986 pursuant to Laws 1986, Chapter 85. The primary powers and duties of the Joint Committee on Capital Review relate to ascertaining facts and making recommendations to the Legislature regarding state expenditures for land, buildings and improvements. This portion of the state budget is known as “capital outlay.” The following members serve on the Committee during the 53rd Legislature:

Senator Debbie Lesko Chairman 2017	Representative Don Shooter Chairman 2018
Senator Sylvia Allen	Representative John M. Allen
Senator Olivia Cajero Bedford	Representative Lela Alston
Senator Steve Farley	Representative Mark Cardenas
Senator Katie Hobbs	Representative Heather Carter
Senator John Kavanagh	Representative Vince Leach
Senator Kimberly Yee	Representative Rebecca Rios

The JCCR is staffed by the JLBC Staff. The objectives and major products of the JCCR are:

- Recommend capital appropriations to the Legislature.
- Approve capital transfers within a budget unit.
- Review the scope, purpose and cost of projects before releasing appropriations.
- Develop “Building Renewal Formula.”
- Approve the use of Renewal funds for infrastructure repair.
- Approve lease-purchase agreements, and the acquisition of certain real property and buildings.
- Along with the Legislature, approve corrections and state operated juvenile facilities expenditures from the Corrections Fund.
- Review the issuance of revenue bonds by the Board of Regents.
- Approve Arizona Department of Administration land and building purchases and condemnations.
- Review “Capital Improvement Plans.”
- Determine rental rates for buildings owned by the state.
- Review Community College District revenue bond projects.
- Review School Facilities Board assumptions for new school construction.
- Review School Facilities Board lease-to-own agreements.

APPROPRIATIONS COMMITTEE MEMBERS
Fifty-third Legislature
First Regular Session

SENATE

Debbie Lesko, Chairman
 John Kavanagh, Vice-Chairman
 Sylvia Allen
 Olivia Cajero Bedford
 Steve Farley
 Katie Hobbs
 Steve Montenegro
 Warren Petersen
 Martin Quezada
 Steve Smith

HOUSE

Don Shooter, Chairman
 David Livingston, Vice-Chairman
 Lela Alston
 Russell Bowers
 Mark Cardenas
 Heather Carter
 Ken Clark
 Regina Cobb
 Charlene R. Fernandez
 Randall Friese
 Vince Leach
 Jill Norgaard
 Anthony Rivero
 Michelle Ugenti-Rita

STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE

- Director..... Richard Stavneak
- Office Manager Linda Monsanto
- Deputy Directors Steve Schimpp
 Stefan Shepherd
- Assistant Director Jack Brown
- Chief Economist..... Hans Olofsson
- Principal Fiscal Analyst Eric Billings
- Senior Fiscal Analysts..... Steve Grunig
 Chris Gustafson
 Micaela Larkin
 Rebecca Perrera
 Jon Stall
- Fiscal Analysts..... Matt Beienburg
 Morgan Dorcheus
 Henry Furtick
 Jeremy Gunderson
 Josh Hope
 Patrick Moran
 Geoffrey Paulsen
- Assistant Fiscal Analyst..... Ben Murphy
- Administrative Assistant/JLBC & JCCR Clerk..... Kristy Paddack

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of June 23, 2017)**

<u>AGENCY/DEPARTMENT/BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Accountancy, Arizona State Board of	Ben Murphy	Monica Petersen [Executive Director]	602-364-0870
Acupuncture Board of Examiners	Steve Grunig	Terese M. Brown [Executive Director]	602-542-3095
Administration, Arizona Department of	Rebecca Perrera	Craig Brown [Director]	602-542-1500
Administrative Hearings, Office of	Ben Murphy	Greg Hanchett [Interim Director]	602-542-9830
African-American Affairs, Arizona Commission of	Ben Murphy	Cloves Campbell [Executive Director]	602-542-5484
Agriculture, Arizona Department of	Henry Furtick	Mark Killian [Director]	602-542-5729
Arizona Health Care Cost Containment System	Jon Stall/Patrick Moran	Thomas J. Betlach [Director]	602-417-4111
Arizona State University	Matt Beienburg	Michael Crow, Ph.D. [President]	480-965-8972
Arts, Arizona Commission on the	Morgan Dorcheus	Robert Booker [Executive Director]	602-771-6501
Athletic Training, Board of	Henry Furtick	Karen Whiteford [Executive Director]	602-589-8353
Attorney General - Department of Law	Eric Billings	Honorable Mark Brnovich [Attorney General]	602-542-5025
Auditor General	Steve Grunig	Debra K. Davenport [Auditor General]	602-553-0333
Automobile Theft Authority	Eric Billings	Frederick Zumbo [Executive Director]	602-364-2888
Barbers, Board of	Ben Murphy	Sam Barcelona [Executive Director]	602-542-4498
Behavioral Health Examiners, Board of	Morgan Dorcheus	Tobi Zavala [Executive Director]	602-542-1882
Charter Schools, State Board for	Morgan Dorcheus	Ashley Berg [Executive Director]	602-364-3080
Child Safety, Department of	Patrick Moran	Greg McKay [Director]	602-542-5844
Chiropractic Examiners, State Board of	Morgan Dorcheus	Justin Bohall [Executive Director]	602-864-5088
Citizens Clean Elections Commission	Ben Murphy	Thomas M. Collins [Executive Director]	602-364-3477
Commerce Authority, Arizona	Eric Billings	Sandra Watson [President and CEO]	602-845-1252
Community Colleges, Arizona	Geoffrey Paulsen	--	--
Constable Ethics Standards and Training Board	Josh Hope	Mike Cobb [Chairman]	602-343-6280
Contractors, Registrar of	Ben Murphy	Jeffrey Fleetham [Director]	602-771-6802
Corporation Commission	Jeremy Gunderson	Honorable Tom Forese [Chairman]	602-542-3993
Corrections, State Department of	Micaela Larkin	Charles L. Ryan [Director]	602-542-5225
Cosmetology, Board of	Ben Murphy	Donna Aune [Director]	480-784-4539
Court of Appeals, Division I	Eric Billings	Honorable Samuel Anderson Thumma [Chief Judge]	602-452-6790
Court of Appeals, Division II	Eric Billings	Honorable Peter Eckerstrom [Chief Judge]	520-628-6950
Criminal Justice Commission, Arizona	Josh Hope	Andrew LeFevre [Executive Director]	602-364-1146
Deaf and the Blind, Arizona State Schools for the	Henry Furtick	Annette Reichman [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	Morgan Dorcheus	Elaine Hugunin [Executive Director]	602-542-4451
Early Childhood Development and Health Board, Arizona	Chris Gustafson	Sam Leyvas [Executive Director]	602-771-5100
Economic Opportunity, Office of	Eric Billings	Paul Shannon [Director]	602-771-0478
Economic Security, Department of	Chris Gustafson/ Patrick Moran	Michael Traylor [Director]	602-542-5757
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]	602-542-3710
Emergency and Military Affairs, Department of	Josh Hope	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	Ben Murphy	Barry Wong [Executive Director]	602-542-3711
Equalization, State Board of	Jeremy Gunderson	George R. Shook [Interim Chairman]	602-364-1611
Executive Clemency, Board of	Micaela Larkin	Ellen Kirschbaum [Executive Director]	602-542-5656
Exposition and State Fair Board, Arizona	Chris Gustafson	Wanell Costello [Executive Director]	602-252-6771
Financial Institutions, Department of	Jeremy Gunderson	Bob Charlton [Superintendent]	602-771-2800
Forestry and Fire Management, Arizona Department of	Henry Furtick	Jeff Whitney [State Forester]	602-771-1400
Funeral Directors and Embalmers, State Board of	Steve Grunig	Judith Stapley [Executive Director]	602-542-8152
Game and Fish Department, Arizona	Ben Murphy	Ty Gray [Director]	602-942-3000
Gaming, Department of	Henry Furtick	Daniel Bergin [Director]	602-771-4263
Governor, Office of the	Steve Grunig	Honorable Doug Ducey [Governor]	602-542-4331
Governor's Office of Strategic Planning and Budgeting	Steve Grunig	Lorenzo Romero [Director]	602-542-5381

<u>AGENCY/DEPARTMENT/BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Health Services, Department of Historical Society, Arizona Historical Society of Arizona, Prescott Homeland Security, Arizona Department of Homeopathic and Integrated Medicine Examiners, Board of	Morgan Dorcheus Josh Hope Josh Hope Josh Hope Steve Grunig	Dr. Cara Christ [Director] Anne I. Woosley [Executive Director] Fred Veil [Executive Director] Gilbert M. Orrantia [Director] Christine Springer [Executive Director]	602-542-1025 520-628-5774 928-445-3122 602-542-7013 602-542-3095
House of Representatives Housing, Arizona Department of Independent Redistricting Commission Industrial Commission of Arizona Insurance, Department of	Steve Grunig Henry Furtick Ben Murphy Ben Murphy Jeremy Gunderson	Honorable J.D. Mesnard [Speaker of the House] Carol Ditmore [Interim Director] Vacant [Executive Director] James Ashley [Director] Leslie Hess [Interim Director]	602-926-3312 602-771-1007 602-542-4411 602-364-3471
Joint Legislative Budget Committee Juvenile Corrections, Department of Land Department, State Legislative Council Liquor Licenses and Control, Department of	Steve Grunig Chris Gustafson Henry Furtick Steve Grunig Jeremy Gunderson	Richard Stavneak [Director] Jeff Hood [Interim Director] Lisa Atkins [Land Commissioner] Mike E. Braun [Executive Director] John Cocca [Director]	602-926-5491 602-364-4051 602-542-4621 602-926-4236 602-542-9020
Lottery Commission, Arizona State Massage Therapy, Board of Medical Board, Arizona Mine Inspector, State Naturopathic Physicians Medical Board	Jeremy Gunderson Steve Grunig Morgan Dorcheus Henry Furtick Steve Grunig	Gregory Edgar [Executive Director] Kathleen Phillips [Executive Director] Patricia McSorley [Executive Director] Honorable Joe Hart [State Mine Inspector] Gail Anthony [Director]	480-921-4505 602-542-8804 480-551-2700 602-542-5971 602-542-8242
Navigable Stream Adjudication Commission, Arizona Northern Arizona University Nursing, State Board of Nursing Care Institution Administrators and Assisted Living Facility Managers, Board of Examiners of Occupational Therapy Examiners, Board of	Henry Furtick Matt Beienburg Morgan Dorcheus Steve Grunig Steve Grunig	George Mehnert [Executive Director] Rita Cheng, Ph.D. [President] Jo Elizabeth Ridenour [Executive Director] Allen Imig [Executive Director] Karen Whiteford [Executive Director]	602-542-9214 928-523-3232 602-771-7800 602-542-8156 602-589-8352
Opticians, State Board of Dispensing Optometry, State Board of Osteopathic Examiners, Arizona Board of Parents Commission on Drug Education and Prevention, AZ Parks Board, Arizona State	Steve Grunig Steve Grunig Morgan Dorcheus Morgan Dorcheus Ben Murphy	Lori D. Scott [Executive Director] Margaret Whelan [Executive Director] Jenna Jones [Executive Director] Debra Moak [Program Administrator] Sue Black [Executive Director]	602-542-8158 602-542-8155 480-657-7703 602-542-4043 602-542-4174
Personnel Board, State Pharmacy, Arizona State Board of Physical Therapy, Board of Pioneers' Home, Arizona Podiatry Examiners, State Board of	Ben Murphy Henry Furtick Steve Grunig Morgan Dorcheus Steve Grunig	Laurie Barcelona [Executive Director] Kamlesh Gandhi [Executive Director] Charles Brown [Executive Director] Ted Ihrman [Superintendent] Ryan Edmonson [Executive Director]	602-542-3888 602-771-2740 602-542-8157 928-445-2181 602-542-8151
Postsecondary Education, Commission for Power Authority, Arizona Private Postsecondary Education, State Board for Psychologist Examiners, State Board of Public Safety, Department of	Morgan Dorcheus Josh Hope Steve Grunig Steve Grunig Eric Billings	April L. Osborn [Executive Director] Edward A. Gerak [Executive Director] Teri R. Stanfill [Executive Director] Cindy Olvey [Director] Frank Milstead [Director]	602-258-2435 602-368-4265 602-542-2399 602-542-8162 602-223-2359
Public Safety Personnel Retirement System Radiation Regulatory Agency Real Estate Department, State Regents, Arizona Board of Residential Utility Consumer Office	Josh Hope Henry Furtick Ben Murphy Matt Beienburg Jeremy Gunderson	Jared Smout [Administrator] Brian Goretzki [Acting Director] Judy Lowe [Commissioner] Eileen Klein [President] David Tenney [Director]	602-255-5575 602-255-4840 602-771-7799 602-229-2500 602-364-4835
Respiratory Care Examiners, Board of Retirement System, Arizona State Revenue, Department of School Facilities Board Secretary of State, Department of State	Steve Grunig Josh Hope Jeremy Gunderson Rebecca Perrera Micaela Larkin	Jack Confer [Director] Paul Matson [Director] David Briant [Director] Paul Bakalis [Director] Honorable Michele Reagan [Secretary of State]	602-542-5995 602-240-2000 602-716-6090 602-542-6504 602-542-4285
Senate State Boards' Office Superior Court Supreme Court Tax Appeals, State Board of	Steve Grunig Steve Grunig Eric Billings Eric Billings Jeremy Gunderson	Honorable Steve Yarbrough [President of the Senate] Susie Myers [Administrator] David K. Byers [Director] Scott Bales [Chief Justice] Karen Rice-Brogdon [Chairperson]	602-926-4371 602-542-3095 602-452-3301 602-452-3534 602-364-1102

<u>AGENCY/DEPARTMENT/BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Technical Registration, State Board of Tourism, Office of Transportation, Department of Treasurer, State Tribal Relations, Governor's Office on	Henry Furtick Henry Furtick Ben Murphy Ben Murphy Ben Murphy	Melissa Cornelius [Executive Director] Debbie Johnson [Director] John Halikowski [Director] Honorable Jeff DeWit [State Treasurer] Kristine FireThunder [Executive Director]	602-364-4930 602-364-3717 602-712-7227 602-542-7800 602-542-4421
University of Arizona Veterans' Services, Department of Veterinary Medical Examining Board, Arizona State Water Resources, Department of	Micaela Larkin Morgan Dorcheus Steve Grunig Micaela Larkin	Robert Robbins, M.D. [President] Colonel Wanda Wright [Director] Victoria Whitmore [Executive Director] Thomas Buschatzke [Director]	520-621-5511 602-255-3373 602-542-8150 602-771-1301
<u>OTHER ASSIGNMENTS</u>			
Capital Review Economic and Revenue Forecast	Jack Brown Hans Olofsson Jack Brown Jon Stall		
Federal/Non-Appropriated Funds Fiscal Note Manager	Stefan Shepherd Stefan Shepherd		

[] Denotes Title for Information Purposes