

STATE OF ARIZONA

FY 2019

Appropriations Report

June 2018

JLBC

FY 2019 APPROPRIATIONS REPORT

This annual *Appropriations Report* provides detailed information on FY 2019 appropriations, as provided in the General Appropriation Act (Laws 2018, Chapter 276) 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 2019 BUDGET

The FY 2019 budget is based primarily upon the actions of the 53rd Legislature's 2nd Regular Session. On May 3, 2018, the Governor signed into law the FY 2019 General Appropriation Act for the year beginning July 1, 2018.

The state's FY 2019 General Fund budget is \$10.39 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$40.5 billion. (*See the Summary of Appropriated Funds by Agency and Summary of Total Spending Authority for more details.*)

Revised FY 2018 Budget – At the time of publication of the *FY 2018 Appropriations Report* in June 2017 after the 53rd Legislature's 1st Regular Session, the FY 2018 budget was anticipated to have a \$38 million ending balance. By January 2018, the projected FY 2018 ending balance was estimated to be a \$(20) million shortfall. The primary adjustments included:

- Decreased balance forward from FY 2017 of \$151 million, or \$(20) million below the original forecast.
- Decreased FY 2017 revenue of \$(25) million, reflecting \$(24) million of decreased revenues in the January consensus forecast plus \$(1) million of revisions to tax law estimates.
- Increased FY 2017 expenditures of \$13 million, including \$11 million for higher-than-projected K-12 spending in the Arizona Department of Education (ADE) and other adjustments.

After January 2018, the State's revenue collections improved significantly. That improvement resulted in the Legislature adopting the Executive's projected base revenue growth rate of 6.0% as compared to the Baseline's growth rate of 4.3%, which added \$172 million of base revenue. The Legislature also approved \$46 million in one-time fund transfers.

The revised FY 2018 budget included \$21 million of net new supplementals, including \$10 million for School Facilities Board (SFB) building renewal grants and \$10 million to AHCCCS for substance use disorder services as part of 1st Special Session legislation. The revised budget also increased the reversion estimate – the projection of unexpended appropriations – from \$(140) million to \$(170) million.

Along with other changes, these adjustments result in a projected FY 2018 ending balance of \$204 million. (*Please see the FY 2018 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 2019 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$10.06 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 4.3% in FY 2018 and 3.6% in FY 2019. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$9.95 billion in FY 2019.

The final enacted budget reflects a negotiated agreement between the Executive and the Legislature on revenue projections. The budget increases the base FY 2019 revenue growth from 3.6% to 4.0%. (As noted above, the FY 2018 growth rate increased to 6.0% and reflected the Executive estimate.) This increase added \$224 million in ongoing revenues to Baseline estimates. The budget also includes \$61 million from new revenue initiatives, primarily associated with adding new audit and collections staff and expanding tax fraud prevention services at the Department of Revenue (DOR), and \$72 million from the enactment of a new Highway Safety Fee. (*Please see the Department of Public Safety (DPS) narrative for more information on the Highway Safety Fee.*)

In addition, the budget assumed \$121 million in new fund transfers. After further adjusting the estimates for the increase of the FY 2018 carry-forward from \$0 to \$204 million, the FY 2019 General Fund budget was based on a revenue level of \$10.63 billion.

The Legislature also made subsequent revisions to the Baseline spending level of \$10.06 billion, which resulted in a final FY 2019 expenditure level of \$10.39 billion. The \$334 million in changes to the Baseline included the following:

Major Ongoing Increases to the Baseline

- \$176 million to ADE for the first year of a K-12 teacher salary increase of 20% statewide by FY 2021.
- \$100 million to ADE for increasing Additional Assistance funding as part of a 5-year plan.
- \$35 million for increased retirement rate costs in the Department of Corrections (ADC), DPS, and elected officials' agencies.
- \$15 million for increased inmate health care costs at ADC.

- \$10 million for a 2.5% hospital provider rate increase in AHCCCS.

Major Ongoing Decreases from the Baseline

- \$(35) million from fund-shifting some AHCCCS Proposition 204 spending to the Hospital Assessment.
- \$(18) million in ADE savings from requiring desegregation taxes to be levied as a secondary rather than a primary property tax.
- \$(7) million from fund shifts to non-General Fund sources in DPS and the Department of Environmental Quality.
- \$(5) million from caseload savings in DES' Temporary Assistance for Needy Families (TANF) cash benefits program used in the Department of Child Safety (DCS).

Major One-Time Increases to the Baseline

- \$64 million to ADE for the first year of a K-12 teacher salary increase; this funding will be replaced by other sources by FY 2022.
- \$34 million to SFB for Building Renewal.
- \$13 million to DES, including \$11 million for additional DD-related Proposition 206 costs and \$2 million for DD room and board increases.
- \$11 million to the Universities.
- \$10 million for increases to agency health insurance rates to increase Health Insurance Trust Fund (HITF) balance.
- \$13 million to counties, including \$11 million to offset costs of Department of Juvenile Corrections cost-sharing and \$2 million to offset costs increases in the Elected Officials' Retirement Plan (EORP).

With the exception of the teacher salary increase, all the other items in this category had been previously funded at some level in the FY 2018 budget as one time. The FY 2019 Baseline did not include these initiatives due to their one-time label.

Under the JLBC Baseline, the FY 2019 budget was projected to have a \$(108) million ending cash balance. The revenue changes and net spending reductions result in a FY 2019 projected ending cash balance of \$236 million. *(Please see the General Fund Balance discussion below.)*

(See FY 2019 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2019 changes.)

Comparison to the FY 2018 Budget – Besides the comparison with the JLBC Baseline, the FY 2019 budget can also be viewed relative to the FY 2018 budget. General Fund revenues, including one-time monies, are

projected to increase from \$10.03 billion in FY 2018 to \$10.63 billion in FY 2019. After technical adjustments, the projected base growth is 4.0%, which will be further modified by the following revenue changes *(see the General Fund Revenue section)*:

- \$(75) million net loss from previously-enacted budget legislation.
- \$61 million net gain from revenue initiatives, primarily associated with adding new audit and collections staff and expanding tax fraud prevention services at DOR.
- \$72 million net gain from the enactment of a new Highway Safety Fee in the 2018 Legislative Session.
- \$6 million gain due to decreased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2019 budget also has a net \$320 million in one-time revenues, including a beginning balances of \$204 million and \$121 million of fund transfers offset by a one-time \$(5) million revenue loss. In comparison, FY 2018 one-time revenues were \$277 million.

General Fund spending is projected to increase from \$9.82 billion in FY 2018 to \$10.39 billion in FY 2019, which is an increase of \$568 million, or 5.78%. Compared to the originally-budgeted FY 2018 total of \$9.82 billion, the FY 2018 budget increases spending by \$574 million, or 5.85%.

The FY 2019 budget includes the following changes compared to the FY 2018 budget, including supplemental changes:

- \$477 million for K-12 education changes, including \$275 million for the first year of a 3-year plan to raise teacher salaries 20%, \$100 million for the first year of a 5-year plan to restore Additional Assistance funding, plus 1.15% student growth and statutorily-mandated inflation increase of 1.8%.
- \$(28) million in decreased SFB spending, reflecting a decrease of \$(36) million for decreased debt service needs, offset by an overall net increase of \$7 million in one-time Building Renewal grant monies, plus continued funding for the second year of new school construction of 6 schools and the first year of funding for 6 new schools.
- \$21 million in increased University funding, including \$27 million for the university infrastructure plan authorized in the 2017 Legislative Session and a net \$(5) million decrease in one-time funding.
- \$(8) million in decreased AHCCCS spending, including \$15 million for formula adjustments, \$(35) million to shift some Proposition 204 costs to the Hospital

Assessment, \$20 million for restoration of a federal health insurer fee, \$15 million for provider rate adjustments, \$(10) million to remove one-time FY 2018 supplemental funding to address the opioid epidemic, and \$(15) million to transfer a portion of Children's Rehabilitative Services (CRS) funding to DES.

- \$(4) million in decreased DCS spending, including \$1 million for Adoption Subsidy caseload growth and \$(5) million for a fund shift to the Federal TANF Block Grant.
- \$65 million in increased DES spending, including \$34 million for DD formula spending, \$14 million for other DD increases, and \$15 million to transfer a portion of CRS funding from AHCCCS.
- \$32 million in ADC spending, including \$27 million for higher employer retirement expenses, \$15 million for inmate health care increases, and \$(3) million for reduced private prison placements.
- \$6 million in increased Judiciary spending, including \$4 million for higher EORP retirement expenses and \$1 million for probation officers and probation officer salaries.
- \$10 million for increases to agency health insurance rates to increase Health Insurance Trust Fund (HITF) balance.

(See FY 2019 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

General Fund Balance – Based on \$10.63 billion in revenue and \$10.39 billion in spending, the FY 2019 General Fund cash balance is projected to be a \$236 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 by using 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 2019 budget has a projected structural balance of \$150 million in FY 2019.

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 \$463 million at the end of FY 2019.

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 2020 and FY 2021 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-6 incorporates the FY 2020 and FY 2021 estimates, which were initially based upon Baseline revenue projections and existing statutory funding requirements. These estimates were modified during the budget process to reflect updated revenue projections. Based on legislative guidance, the FY 2020 and FY 2021 estimates also include the continuation of FY 2019 initiatives which were considered to be ongoing.

The figures reflected in the multi-year analysis on page BH-6 differ from the figures listed in the FY 2019 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 3-year spending plan does not reflect any revenue changes associated with conforming the state's individual and corporate income taxes with recent federal tax code revisions which are effective as of January 1, 2018. The Legislature did not approve any Tax Year 2018 conformity legislation during the Second Regular Session and the issue was deferred for consideration at a later time.

The General Appropriation Act forecasted total FY 2020 revenues to be \$10.98 billion and expenditures to be \$10.79 billion, with a \$188 million balance. After accounting for legislation enacted separately from the budget and technical adjustments, FY 2020 revenues are projected to be \$10.98 billion compared to spending of \$10.79 billion, both figures nearly identical to the original forecast. The FY 2020 balance is estimated to be \$187 million, including the \$236 million FY 2019 ending balance. The structural balance for FY 2020 is estimated to be \$45 million.

The FY 2020 spending projection includes statutory formula caseload growth and removal of FY 2019 spending categorized as one-time in the FY 2019 budget process. FY 2020 ongoing revenues are primarily based on a base growth rate of 4.4% as negotiated between the Executive and the Legislature, but also incorporate separately enacted tax law changes. It also reflects new one-time spending, including \$49 million in one-time FY 2020 spending to complete SFB school construction projects started in FY 2019 and start SFB projects projected to start in FY 2020 and another year of \$65 million of funding for teacher pay raises that will be funded from an ongoing funding source starting in FY 2022.

The General Appropriation Act forecasted FY 2021 revenues to be \$11.41 billion and expenditures to be \$11.31 billion, with a \$102 million balance. After accounting for separately enacted legislation and technical adjustments, FY 2021 revenues are projected to be \$11.41 billion compared to spending of \$11.31 billion, both figures nearly identical to the original forecast. The FY 2021 budget is estimated to have a \$102 million balance, including the \$187 million FY 2020 ending balance. The structural balance for FY 2021 is estimated to be \$2 million.

The FY 2021 spending includes statutory formula caseload growth and removal of one-time FY 2020 spending. FY 2021 ongoing revenues reflect a negotiated base growth rate of 4.4%, further adjusted for previously enacted tax law changes. It also reflects new one-time spending, including \$27 million to complete SFB school construction projects projected to start in FY 2020 and the final year of \$65 million of funding for teacher pay raises that will be funded from an ongoing funding source starting in FY 2022.

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 2019 through FY 2021 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**

	<u>FY 2018 Enacted</u>	<u>FY 2019 Enacted</u>	<u>FY 2020 Estimate</u>	<u>FY 2021 Estimate</u>
REVENUES				
Ongoing Revenues	\$10,429,319,800	\$10,921,547,200	\$11,456,668,800	\$11,935,573,300
Previously Enacted Changes		(75,296,200)	(6,433,300)	(5,800,000)
Newly Enacted Changes		61,490,400	3,000,000	
Highway Safety Fee Offset/Transfers		72,364,500	(16,694,500)	
Urban Revenue Sharing	(680,770,100)	(674,804,400)	(694,639,400)	(708,904,300)
Net Ongoing Revenues	\$9,748,549,700	\$10,305,301,500	\$10,741,901,600	\$11,220,869,000
One-time Financing Sources				
Balance Forward	150,871,000	204,482,000	236,004,300	187,419,800
Moody's Settlement Fund Transfer	8,172,700			
One-Time Base Revenue	72,000,000			
TY 2017 IRC Conformity		(5,000,000)		
Fund Transfers	46,219,000	120,681,700	1,840,700	
Subtotal One-time Revenues	\$277,262,700	\$320,163,700	\$237,845,000	\$187,419,800
Total Revenues	\$10,025,812,400	\$10,625,465,200	\$10,979,746,600	\$11,408,288,800
EXPENDITURES				
Operating Budget Appropriations	\$9,708,562,300	\$10,200,028,900	\$10,742,038,900	\$11,263,550,800
Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
Revertments	(169,988,800)	(145,000,000)	(145,000,000)	(145,000,000)
Subtotal Ongoing Expenditures	\$9,638,573,500	\$10,155,028,900	\$10,697,038,900	\$11,218,550,800
One-time Expenditures				
Capital Outlay	5,700,000	4,959,000		
Operating One-Time Spending	180,142,500	241,996,500	118,181,500	87,875,500
FY 2018 One-Time Supplementals	21,045,300			
ADOT One-Time Savings		(12,523,500)		
AHCCCS One-Time Savings	(24,130,900)		(22,893,600)	
Subtotal One-time Expenditures	\$182,756,900	\$234,432,000	\$95,287,900	\$87,875,500
Total Expenditures	\$9,821,330,400	\$10,389,460,900	\$10,792,326,800	\$11,306,426,300
Ending Balance <u>2/</u>	\$204,482,000	\$236,004,300	\$187,419,800	\$101,862,500
Structural Balance <u>3/</u>	\$109,976,200	\$150,272,600	\$44,862,700	\$2,318,200

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

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

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

GENERAL FUND SPENDING BY BUDGET UNITS 1
ONGOING FUNDING

EXPENDITURES	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
Operating Budget				
-- Department of Administration	\$10,264,500	\$7,887,900	\$7,887,900	\$7,887,900
-- ADOA - Automation Projects Fund	5,000,000	5,000,000	5,000,000	
-- Office of Administrative Hearings	860,500	864,600	864,600	864,600
-- African-American Affairs Commission	125,000	126,700	126,700	126,700
-- Arizona Department of Agriculture	9,396,600	9,579,100	9,579,100	9,579,100
-- AHCCCS	1,798,998,200	1,776,890,400	1,918,742,700	2,069,731,400
-- Attorney General	24,568,500	24,327,500	24,327,500	24,327,500
-- State Board for Charter Schools	1,185,200	1,204,000	1,204,000	1,204,000
-- Department of Child Safety	379,374,800	375,763,700	375,763,700	375,763,700
-- Commerce Authority	21,800,000	21,800,000	15,800,000	15,800,000
-- Community Colleges	55,086,500	57,205,500	58,290,000	59,538,500
-- Corporation Commission	611,600	613,900	613,900	613,900
-- Department of Corrections	1,055,305,000	1,094,790,700	1,091,717,800	1,091,717,800
-- County Funding	6,000,500	7,650,700	7,650,700	7,650,700
-- Schools for the Deaf and the Blind	21,378,100	21,421,200	23,021,200	23,021,200
-- Office of Economic Opportunity	484,100	485,300	485,300	485,300
-- Department of Economic Security	573,551,400	636,289,200	682,516,800	729,743,400
-- State Board of Education	1,142,800	1,144,600	1,144,600	1,144,600
-- Department of Education	4,226,403,500	4,639,488,200	5,027,727,700	5,412,894,900
-- Dept. of Emergency & Military Affairs	11,195,100	11,079,100	11,079,100	11,079,100
-- Department of Environmental Quality	2,823,600			
-- Governor's Office of Equal Opportunity	189,100			
-- State Board of Equalization	643,000	650,300	650,300	650,300
-- Board of Executive Clemency	952,600	1,133,700	1,133,700	1,133,700
-- Department of Financial Institutions	2,153,200	1,967,600	1,967,600	1,967,600
-- Dept. of Forestry and Fire Management	11,250,300	11,128,800	11,128,800	11,128,800
-- Department of Gaming	1,779,500	1,779,500	1,779,500	1,779,500
-- Office of the Governor	6,849,900	7,008,800	7,008,800	7,008,800
-- Gov's Ofc of Strategic Planning and Budgeting	1,994,000	2,013,900	2,013,900	2,013,900
-- Department of Health Services	86,650,800	89,540,400	89,540,400	89,540,400
-- Arizona Historical Society	3,142,500	3,179,200	3,179,200	3,179,200
-- Prescott Historical Society	824,500	826,100	826,100	826,100
-- Department of Housing	811,400			
-- Department of Insurance	5,806,400	5,599,600	5,599,600	5,599,600
-- Judiciary	110,215,400	116,367,400	123,045,400	129,586,000
-- Department of Juvenile Corrections	19,155,700	22,518,200	22,518,200	22,518,200
-- State Land Department	12,671,600	11,678,900	11,678,900	11,678,900
-- Legislature				
Auditor General	18,439,000	19,607,000	20,104,500	20,104,500
House of Representatives	13,201,500	13,746,600	13,746,600	13,746,600
Joint Legislative Budget Committee	2,488,300	2,494,900	2,494,900	2,494,900

GENERAL FUND SPENDING BY BUDGET UNITS 1/
ONGOING FUNDING

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
Legislative Council	8,215,400	8,279,800	8,279,800	8,279,800
Senate	9,408,500	9,687,300	9,687,300	9,687,300
SUBTOTAL - Legislature	\$51,752,700	\$53,815,600	\$54,313,100	\$54,313,100
-- State Mine Inspector	1,212,500	1,249,900	1,249,900	1,249,900
-- Navigable Stream Adjudication Commission	124,000	126,600	126,600	126,600
-- Commission for Postsecondary Education	1,881,800	1,646,800	1,646,800	1,646,800
-- Department of Public Safety	108,654,600	103,918,600	82,218,600	82,218,600
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	5,000,000	5,000,000
-- Radiation Regulatory Agency	773,400			
-- State Real Estate Department	2,994,900	2,898,900	2,898,900	2,898,900
-- Department of Revenue	30,507,700	30,935,600	30,935,600	30,935,600
-- School Facilities Board	188,096,300	152,650,400	150,233,600	85,540,900
-- Secretary of State	11,563,200	15,517,100	15,517,100	15,517,100
-- Tax Appeals, State Board of	277,700	279,300	279,300	279,300
-- Office of Tourism	7,112,000	7,112,000	7,112,000	7,112,000
-- Department of Transportation	50,400			
-- State Treasurer	1,205,100	1,205,100	1,205,100	1,205,100
-- Governor's Office on Tribal Relations	57,500	60,600	60,600	60,600
-- Universities	685,130,700	712,671,900	710,192,000	709,726,500
-- Department of Veterans' Services	6,054,100	6,067,200	6,067,200	6,067,200
-- Department of Water Resources	13,854,200	13,609,300	13,609,300	13,609,300
-- Phoenix Convention Center Payment	22,499,000	22,996,300	23,500,000	23,997,900
-- Rio Nuevo District	14,000,000	14,000,000	14,000,000	14,000,000
-- Asset Sale/Lease-Back Debt Service	84,115,100	84,112,000	84,108,500	84,109,100
-- Unallocated IT Pro-Rata Charge Increase		500	500	500
-- Unallocated Retirement Rate Adjustment		150,500	150,500	150,500
-- Agency Reductions			(8,000,000)	(8,000,000)
Total - Operating Budget	\$9,708,562,300	\$10,200,028,900	\$10,742,038,900	\$11,263,550,800
-- FY 2018 One-Time Supplementals	21,045,300			
-- ADOT One-Time Savings		(12,523,500)		
-- Capital Outlay	5,700,000	4,959,000		
-- Operating One-Time Spending	180,142,500	241,996,500	118,181,500	87,875,500
-- AHCCCS One-Time Savings	(24,130,900)		(22,893,600)	
-- Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
-- Revertments	(169,988,800)	(145,000,000)	(145,000,000)	(145,000,000)
Total Spending	\$9,821,330,400	\$10,389,460,900	\$10,792,326,800	\$11,306,426,300

1/ Individual agency spending amounts listed above exclude "FY 2018 One-Time Supplementals", "Operating One-Time Spending", "ADOT One-Time Savings" and "AHCCCS One-Time Savings" amounts. These amounts for each agency are listed on page BH-11 and BH-12.

GENERAL FUND SPENDING BY BUDGET UNITS 1/ COMBINED ONGOING AND ONE-TIME FUNDING

	FY 2018 Enacted w/ One-Times	FY 2019 Enacted w/ One-Times	FY 2020 Estimate w/ One-Times	FY 2021 Estimate w/ One-Times
EXPENDITURES				
Operating Budget				
-- Department of Administration	\$10,365,300	\$7,939,100	\$7,887,900	\$7,887,900
-- ADOA - Automation Projects Fund	12,300,000	5,000,000	5,000,000	
-- Office of Administrative Hearings	870,900	868,900	864,600	864,600
-- African-American Affairs Commission	125,800	127,200	126,700	126,700
-- Arizona Department of Agriculture	9,604,000	9,640,000	10,329,100	9,579,100
-- AHCCCS	1,785,264,100	1,777,093,500	1,895,849,100	2,069,731,400
-- Attorney General	26,344,200	25,940,300	25,827,500	24,327,500
-- State Board for Charter Schools	1,200,600	1,209,800	1,204,000	1,204,000
-- Department of Child Safety	379,790,800	375,838,700	375,763,700	375,763,700
-- Commerce Authority	21,800,000	21,800,000	15,800,000	15,800,000
-- Community Colleges	55,086,500	57,205,500	58,290,000	59,538,500
-- Corporation Commission	621,500	814,600	613,900	613,900
-- Department of Corrections	1,067,641,400	1,099,670,000	1,091,717,800	1,091,717,800
-- County Funding	15,650,700	20,566,200	7,650,700	7,650,700
-- Schools for the Deaf and the Blind	21,932,000	21,659,300	23,021,200	23,021,200
-- Office of Economic Opportunity	484,100	488,800	485,300	485,300
-- Department of Economic Security	586,110,300	650,936,900	682,516,800	729,743,400
-- State Board of Education	1,153,600	1,146,300	1,144,600	1,144,600
-- Department of Education	4,227,258,400	4,704,652,000	5,092,327,700	5,476,994,900
-- Dept. of Emergency & Military Affairs	11,238,300	11,098,200	11,079,100	11,079,100
-- Department of Environmental Quality	2,823,600			
-- Governor's Office of Equal Opportunity	191,900			
-- State Board of Equalization	646,400	652,000	650,300	650,300
-- Board of Executive Clemency	963,500	1,137,000	1,133,700	1,133,700
-- Department of Financial Institutions	2,201,000	1,984,800	1,967,600	1,967,600
-- Dept. of Forestry and Fire Management	16,000,500	11,156,700	11,128,800	11,128,800
-- Department of Gaming	1,779,500	1,779,500	1,779,500	1,779,500
-- Office of the Governor	8,871,400	8,538,800	7,008,800	7,008,800
-- Gov's Ofc of Strategic Planning and Budgeting	2,014,600	2,022,100	2,013,900	2,013,900
-- Department of Health Services	87,670,300	89,931,200	89,540,400	89,540,400
-- Arizona Historical Society	3,179,800	3,195,000	3,179,200	3,179,200
-- Prescott Historical Society	840,200	832,700	826,100	826,100
-- Department of Housing	830,000			
-- Department of Insurance	5,878,300	5,628,400	5,599,600	5,599,600
-- Judiciary	110,718,700	116,577,000	123,045,400	129,586,000
-- Department of Juvenile Corrections	19,549,800	22,734,500	22,518,200	22,518,200
-- State Land Department	12,815,000	11,733,400	11,678,900	11,678,900
-- Legislature				
Auditor General	18,688,800	19,709,600	20,104,500	20,104,500
House of Representatives	13,419,100	13,835,000	13,746,600	13,746,600
Joint Legislative Budget Committee	2,513,800	2,504,800	2,494,900	2,494,900

GENERAL FUND SPENDING BY BUDGET UNITS 1/

COMBINED ONGOING AND ONE-TIME FUNDING

	FY 2018 Enacted w/ One-Times	FY 2019 Enacted w/ One-Times	FY 2020 Estimate w/ One-Times	FY 2021 Estimate w/ One-Times
Legislative Council	8,278,400	8,304,900	8,279,800	8,279,800
Senate	9,548,100	9,747,200	9,687,300	9,687,300
SUBTOTAL - Legislature	<u>\$52,448,200</u>	<u>\$54,101,500</u>	<u>\$54,313,100</u>	<u>\$54,313,100</u>
-- State Mine Inspector	1,226,800	1,255,800	1,249,900	1,249,900
-- Navigable Stream Adjudication Commission	125,500	127,400	126,600	126,600
-- Commission for Postsecondary Education	1,881,800	1,646,800	1,646,800	1,646,800
-- Department of Public Safety	109,614,200	104,241,700	82,218,600	82,218,600
-- Public Safety Personnel Retirement System	6,000,000	7,000,000	5,000,000	5,000,000
-- Radiation Regulatory Agency	787,600			
-- State Real Estate Department	3,028,000	2,911,700	2,898,900	2,898,900
-- Department of Revenue	31,333,700	31,063,800	30,935,600	30,935,600
-- School Facilities Board	302,286,600	274,700,300	199,565,100	109,316,400
-- Secretary of State	14,690,100	15,568,800	15,517,100	15,517,100
-- Tax Appeals, State Board of	279,400	280,400	279,300	279,300
-- Office of Tourism	7,112,000	7,112,000	7,112,000	7,112,000
-- Department of Transportation	50,500	65,000		
-- State Treasurer	1,205,100	1,205,100	1,205,100	1,205,100
-- Governor's Office on Tribal Relations	58,000	60,900	60,600	60,600
-- Universities	704,819,700	725,503,700	710,192,000	709,726,500
-- Department of Veterans' Services	6,115,800	6,120,600	6,067,200	6,067,200
-- Department of Water Resources	16,001,900	16,169,800	15,609,300	13,609,300
-- Phoenix Convention Center Payment	22,499,000	22,996,300	23,500,000	23,997,900
-- Rio Nuevo District	14,000,000	14,000,000	14,000,000	14,000,000
-- Asset Sale/Lease-Back Debt Service	84,115,100	84,112,000	84,108,500	84,109,100
-- Revert FY 2017 DCS Backlog Privatization	(2,700,000)			
-- Revert FY 2016 SOS Special Election	(2,962,600)			
-- Revert FY 2017 ADOT Construction Funding	(230,000)			
-- Unallocated IT Pro-Rata Charge Increase		500	500	500
-- Unallocated Retirement Rate Adjustment		150,500	150,500	150,500
-- Unallocated FY 2019 Health Insurance Adjustment		32,400		
-- Agency Reductions			(8,000,000)	(8,000,000)
-- Unallocated FY 2018 Health Insurance Adjustment	15,800			
Total - Operating Budget	<u>\$9,885,619,200</u>	<u>\$10,442,025,400</u>	<u>\$10,837,326,800</u>	<u>\$11,351,426,300</u>
-- ADOT One-Time Savings		(12,523,500)		
-- Capital Outlay	5,700,000	4,959,000		
-- Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
-- Revertments	(169,988,800)	(145,000,000)	(145,000,000)	(145,000,000)
Total Spending	<u>\$9,821,330,400</u>	<u>\$10,389,460,900</u>	<u>\$10,792,326,800</u>	<u>\$11,306,426,300</u>

1/ Individual agency spending amounts listed above include "FY 2018 One-Time Supplementals", "Operating One-Time Spending" and "AHCCCS One-Time Savings" amounts. These amounts for each agency are listed on page BH-11 and BH-12.

SUMMARY OF ONE-TIME SPENDING AND ONE-TIME SAVINGS

	<u>FY 2018 Enacted 1/</u>	<u>FY 2019 Enacted</u>	<u>FY 2020 Estimate</u>	<u>FY 2021 Estimate</u>
Operating				
ADOA/Automation Projects Fund - ADE IT	\$ 7,300,000	\$ -	\$ -	\$ -
Agriculture - Equipment	61,000			
Agriculture - Industrial Hemp			750,000	
Attorney General - Criminal Division	1,500,000	1,500,000	1,500,000	
Corporation Commission - Railway Safety Inspectors		196,600		
Counties - DJC Local Cost Sharing Offset	8,000,000	11,260,000		
Counties - \$550k Distribution (Pinal/Yavapai/Mohave)	1,650,200			
Counties - Partial EORP Cost Offset		1,655,500		
DES - One-Time Prop 206 Funding	10,000,000	11,000,000		
DES - One-Time DD Room and Board	2,000,000	2,000,000		
DES - SNAP Benefit Match Program		400,000		
DES - Food Banks		1,000,000		
ADE - Geographic Literacy	100,000			
ADE - Professional Development Pilot	300,000			
ADE - Gifted Pupils		1,000,000		
ADE - Prop 301 Bridge		64,100,000	64,100,000	64,100,000
ADE - Civics Pilot Program			500,000	
Forester - Fire Safety Communications	139,900			
Forester - Post Release Firefighting Crew	465,100			
Governor - Youth Success Fund Deposit	1,500,000	1,500,000		
Governor - School Leadership Training	250,000			
Governor - Computer Science Initiative	200,000			
PSPRS - Prescott Fire Deposit		1,000,000		
SFB - Building Renewal Grants	17,167,900	34,417,900		
SFB - New School Construction (FY 17 Authorization)	23,078,600			
SFB - New School Construction (FY 18 Authorization)	63,929,800	37,989,800		
SFB - New School Construction (FY 19 Authorization)		49,636,700	36,726,700	
SFB - New School Construction (FY 20 Authorization)			12,604,800	9,604,800
SFB - New School Construction (FY 21 Authorization)				14,170,700
SOS - One-Time Operating Funding	500,000			
Transportation - West Valley Project		65,000		
Universities - ASU	6,639,500	4,245,000		
Universities - NAU	3,202,800	1,590,200		
Universities - UA	3,157,700	2,164,800		
Universities - NAU Freedom School		500,000		
Universities - ASU/UA Freedom Schools	2,000,000	2,000,000		
Universities - Arizona/Mexico Economic Development		250,000		
Veterans' Services - Hyperbaric Oxygen Therapy		25,000		
DWR - Water Study		100,000		
DWR - Water Protection Fund Deposit		400,000		
DWR - Drought Contingency Plan	2,000,000	2,000,000	2,000,000	
Other - HITF Deposit	25,000,000	10,000,000		
Subtotal - Operating Funding	\$ 180,142,500	\$ 241,996,500	\$ 118,181,500	\$ 87,875,500
AHCCCS - One-time Health Insurer Fee Savings	\$ (24,130,900)		\$ (22,893,600)	
ADOT - One-time VW Settlement Savings		\$ (12,523,500)		
Capital Outlay				
Capital - ADOA - Projects	5,700,000			
Capital - DEMA - Tucson Readiness Center		3,759,000		
Capital - DPS - Modular Housing		1,200,000		
Subtotal - Capital Outlay	\$ 5,700,000	\$ 4,959,000	\$ -	\$ -
Supplementals				
AHCCCS - Substance Use Disorder Services Fund Deposit	10,000,000			
DCS - Revert FY 2017 Backlog Privatization	(2,700,000)			

SUMMARY OF ONE-TIME SPENDING AND ONE-TIME SAVINGS

	<u>FY 2018 Enacted ^{1/}</u>	<u>FY 2019 Enacted</u>	<u>FY 2020 Estimate</u>	<u>FY 2021 Estimate</u>
ADC - Named Claimants	16,600			
ADE - Mayer Unified School District Funding	300,000			
Forestry and Fire Management - Fire Expenses	4,078,000			
DHS - Named Claimants	900			
DOR - Named Claimants	42,400			
SFB - Building Renewal Grants	10,000,000			
SOS - Revert FY 2016 Special Election Funding	(2,962,600)			
SOS - CD 8 Special Election Funding	2,500,000			
ADOT - Revert FY 2017 Highway Construction Funding	(230,000)			
Subtotal - Supplementals	\$ 21,045,300	\$ -	\$ -	\$ -
Total - One-time Spending	\$ 182,756,900	\$ 234,432,000	\$ 95,287,900	\$ 87,875,500

^{1/} Reflects display as of original budget enactment in May 2017. FY 2018 items have not been recategorized if they were subsequently labeled as ongoing in the FY 2019 budget.

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
1 Beginning Balance	\$ 150.9	\$ 204.3	\$ 235.7	\$ 187.1
Ongoing Revenues				
2 Ongoing Revenues - January Baseline	9,648.5	9,947.4	10,378.7	10,862.4
3 Base Revenue Adjustment	100.0	224.0	243.0	238.3
4 Expand Tax Fraud Prevention to TPT		30.0	30.0	30.0
5 Higher Revenue/Increased Enforcement Staff		25.0	25.0	25.0
6 Eliminate \$2.6 M Ongoing Judiciary Transfers - Move \$2.0 M to One-Time		(2.6)	(2.6)	(2.6)
7 Increase Military Pension Exemption from \$2,500 to \$3,500 in TY 2019		Cost Starts In FY 20	(2.0)	(2.0)
8 Cap Radiation Regulatory Fees Shift from General Fund at \$800k		(0.8)	(0.8)	(0.8)
9 Boxing/MMA Fees Shift from General Fund		(0.1)	(0.1)	(0.1)
10 Reduced Liquor Licenses Revenue (Due to Other Fund Changes)		(0.1)	(0.1)	(0.1)
11 Online Lodging Marketplace TPT/Sales Suppression Software Ban (Ch. 189/190)		10.0	15.0	15.0
12 DPS Highway Safety Fee Transfers (VLT Transfer in FY 19/Unspecified FY 20/21)		42.4	55.7	55.7
13 ADOT HELP Fund Transfer (Due to Highway Safety Fee Offset)		30.0		
14 Subtotal - Ongoing Revenues	\$ 9,748.5	\$ 10,305.2	\$ 10,741.8	\$ 11,220.8
One-Time Revenues				
15 One-Time Base Revenue Adjustment	72.0			
16 Tax Year 2017 IRC Conformity (Ch. 142)		(5.0)		
<u>Previously Enacted Fund Transfers</u>				
17 FY 2018 Moody's Settlement Transfer - Already Enacted	8.2			
<u>New Proposed Fund Transfers</u>				
18 ADOA - Air Quality Fund	0.2			
19 ADOA - Employee Benefit Plan Fund		2.5		
20 ADOA - AFIS II Fund		0.8		
21 ADOA - Motor Pool Revolving Fund		0.3		
22 AHCCCS - IGA and ISA Fund		5.9		
23 AHCCCS - Hospital Loan Residency Program	0.9			
24 AHCCCS - Prescription Drug Rebate Fund		52.6		
25 Attorney General - VW Settlement Transfer		20.0		
26 Contractors - Recovery Fund		4.0		
27 Corp. Comm. - Pipeline Safety Revolving Fund		0.1		
28 Corrections - Corrections Fund		1.5		
29 Corrections - Building Renewal Fund		0.5		
30 Corrections - Special Services Fund	1.0	25k		
31 Corrections - ACI Revolving Fund		1.5		

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
32	Corrections - Indirect Cost Recovery Fund		0.5	
33	Economic Opportunity - Operations Fund		2.2	
34	Economic Opportunity - Economic Development Fund	5.1		
35	Economic Opportunity - Greater AZ Development Authority	1.3		
36	Economic Opportunity - AFA Operating Fund		0.1	
37	Economic Opportunity - AZ IDA Fund		0.3	
38	DES - Special Admin Fund		11k	
39	DEQ - Hazardous Waste Management Fund	1.5		
40	DEQ - Air Quality Fund	1.5		
41	DEQ - Air Quality Fund (VW Lawsuit Shift)		1.0	1.0
42	DEQ - Underground Storage Tank Revolving Fund	10.0	10.0	
43	DEQ - Recycling Fund	2.0		
44	DEQ - Centralized Monitoring Fund	0.5		
45	DEQ - Permit Administration Fund	3.0		
46	DEQ - Voluntary Vehicle Repair and Retrofit Program Fund	2.5		
47	DFI - Mortgage Recovery Fund	0.5		
48	DFI - Financial Services Fund	5.0		
49	DFI - Receivership Revolving Fund	50k		
50	Game and Fish - Watercraft Licensing	1.0	1.5	
51	DHS - Health Service Licensing Fund	1.5	1.0	
52	DHS - BHS ISA Agreement Fund	3.1		
53	Housing - Housing Program Fund		2.0	
54	Housing - Housing Trust Fund		0.4	
55	Industrial Commission - Admin Fund		7.0	
56	Judiciary - Drug Treatment and Education Fund		2.0	
57	DPS - Public Safety Equipment Fund		22k	
58	DPS - Fingerprint Clearance Card Fund	1.0		
59	DPS - Concealed Weapons Permit Fund	2.0		
60	DPS - Joint Fund (VW Lawsuit Fund Shift)		0.8	0.8
61	RUCO - Revolving Fund		0.1	
62	ADOT - Economic Strength Project Fund	0.5		
63	ADOT - Vehicle Inspection and Title Enforcement Fund	2.0	1.1	
64	Water Resources - IGA/ISA Fund	0.1		
65	Water Resources - Indirect Cost Recovery Fund		1.0	
66	Subtotal - Newly Enacted Fund Transfers	\$ 46.2	\$ 120.7	\$ 1.8
				\$ -

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
67 Subtotal - One-Time Revenues (Including Beginning Balance)	\$ 277.3	\$ 320.0	\$ 237.5	\$ 187.1
68 Total Revenues	\$ 10,025.8	\$ 10,625.2	\$ 10,979.3	\$ 11,407.9
69 JLBC Baseline - Ongoing Spending	\$ 9,666.3	\$ 9,958.8	\$ 10,334.1	\$ 10,650.8
Ongoing Changes to JLBC Baseline				
70 ADOA - Government Transformation Office Fund Shift		(1.0)	(1.0)	(1.0)
71 ADOA - AZNet (Telecomm) Contract Savings (\$45k)		(0.1)	(0.1)	(0.1)
72 ADOA - State Procurement Office Fund Shift		(0.5)	(0.5)	(0.5)
73 ADOA - Utility Savings		(0.6)	(0.6)	(0.6)
74 Office of Administrative Hearings - 1740 W Adams Relocation		\$13k	\$13k	\$13k
75 Agriculture - Livestock Inspector Salary Increase		0.2	0.2	0.2
76 Agriculture - Salt River Horse Management (FY 18 \$40k/FY 19 \$51k)	0.1	0.1	0.1	0.1
77 Agriculture - Efficiency Savings (\$125k)		(0.1)	(0.1)	(0.1)
78 AHCCCS - Formula (FY 18 in Revertments)	(17.3)	(65.6)	(52.4)	(36.2)
79 AHCCCS - Shift CRS to DES		(15.2)	(15.2)	(15.2)
80 AHCCCS - Shift DD Behavioral Health to DES (Baseline Shifted; Budget Does Not)		17.1	17.1	17.1
81 AHCCCS - Rearrange Tobacco Tax/Increase Hospital Assessment		(35.2)	(35.2)	(35.2)
82 AHCCCS - 2.5% Provider Rate Increase		9.8	9.8	9.8
83 AHCCCS - End Prior Quarter Coverage		(2.5)	(2.5)	(2.5)
84 AHCCCS - Reduce Out-of-Network BHS Reimbursement to 90%		(1.0)	(1.0)	(1.0)
85 AHCCCS - American Indian Health Program Admin Shift (\$545k)		(0.5)	(0.5)	(0.5)
86 AHCCCS - American Indian Health Program Admin Staffing (12 FTEs)		0.3	0.3	0.3
87 AHCCCS - Behavioral Health Services in Schools		3.0	3.0	3.0
88 AHCCCS - Skilled Nursing Provider Rate Increase		2.7	2.7	2.7
89 AHCCCS - Increase Critical Access Hospital Funding		1.8	1.8	1.8
90 AHCCCS - Eliminate County DUC Pool Payments		2.6	2.6	2.6
91 AHCCCS - Suicide Prevention Coordinator		0.1	0.1	0.1
92 Attorney General - Rent Adjustment (\$638k)		(0.6)	(0.6)	(0.6)
93 Attorney General - Child Advocacy Fund Deposit		0.1	0.1	0.1
94 DCS - Adoption Services		1.2	1.2	1.2
95 DCS - Remove FY 21 Automation Funding (\$5 M in Baseline in FY 19 - FY 21)				(5.0)
96 Commerce Authority - Reduce Competes Fund Deposit (From \$11.5 M to \$5.5 M)		Start in FY 20	(6.0)	(6.0)
97 Community Colleges - Rural County Allocation (Formula Adjustment)		0.3	0.3	0.3
98 Corrections - Health Care Adjustment		15.0	15.0	15.0
99 Corrections - Retirement Adjustment		26.5	26.5	26.5

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
100 Corrections - Private Prison Capacity Cap		(2.8)	(2.8)	(2.8)
101 Corrections - FY 20 Lease-Purchase Savings - Post Baseline JLBC Score			(3.1)	(3.1)
102 Counties - Ongoing \$550k Distribution (Pinal/Yavapai/Mohave)		1.7	1.7	1.7
103 ASDB - Early Childhood Services (FY 19 OF/FY 20 and FY 21 GF) (Ch. 291)		Other Fund - \$2.0 M	1.6	1.6
104 ASDB/ADC/DJC - Teacher Pay Increase		1.6	2.4	3.2
105 DES - Shift CRS from AHCCCS		15.2	15.2	15.2
106 DES - Shift DD Behavioral Health from AHCCCS (Baseline Shifted; Budget Does Not)		(17.1)	(17.1)	(17.1)
107 DES - DD Case Management (Baseline - \$2.9 M/ Budget - \$2.4 M)		(0.5)	(0.5)	(0.5)
108 DES - Skilled Nursing Provider Rate Increase (DD Program) (\$174k)		0.2	0.2	0.2
109 DES - Lower TANF Caseload/Fund Shift		(5.0)	(5.0)	(5.0)
110 ADE - Formula	(10.5)	(22.3)	(42.1)	(48.0)
111 ADE - Increase Additional Assistance		100.0	167.8	235.6
112 ADE - Additional Teacher Pay Funding		176.2	340.9	465.3
113 ADE - IT Funding (ELAS)		5.3	5.3	5.3
114 ADE - Computer Science Pilot Program		1.0	1.0	1.0
115 ADE - Fully Fund Large JTEDs		1.8	1.8	1.8
116 ADE - Teacher Salary Increase in Base Level		Yes		
117 ADE - Geographic Literacy		0.1	0.1	0.1
118 ADE - Secondary Property Tax Reform		(19.0)	(19.0)	(19.0)
119 DEMA - Efficiency Savings (\$130k)		(0.1)	(0.1)	(0.1)
120 DEQ - WQARF Fund Shift to Non-GF		(2.8)	(2.8)	(2.8)
121 Ofc. Of Equal Opportunity - ADOA Personnel Division Fund Shift		(0.2)	(0.2)	(0.2)
122 Executive Clemency - Part-time Hearing Officer (\$33k)		0.1	0.1	0.1
123 Executive Clemency - Board Member Pay Increase (\$125k)		0.1	0.1	0.1
124 Dept. of Financial Institutions - Fund Shifts (\$250k)		(0.3)	(0.3)	(0.3)
125 Forestry - Hazardous Vegetation Funding (\$650k)		0.7	0.7	0.7
126 Forestry - Fire Suppression Fund Shift to Land Dept. Funds		(0.8)	(0.8)	(0.8)
127 Governor - Efficiency Savings (\$44k)		(0.1)	(0.1)	(0.1)
128 Governor - OSPB - Efficiency Savings (\$10k)		(0.1)	(0.1)	(0.1)
129 DHS - Radiation Regulatory Fund Shift		(0.8)	(0.8)	(0.8)
130 DHS - AIDS Reporting Fund Shift		(1.0)	(1.0)	(1.0)
131 DHS - Vital Records Fund Shift (\$250k)		(0.3)	(0.3)	(0.3)
132 DHS - End County Payment State Hospital SVP		3.0	3.0	3.0
133 Historical Society - Grants Specialist (\$30k)		0.1	0.1	0.1
134 Insurance - Efficiency Savings (Vacancy Savings)		(0.2)	(0.2)	(0.2)
135 Judiciary - Adult Standard Probation Funding		0.4	0.6	0.6
136 Judiciary - Probation Salary Deficit		0.6	0.6	0.6

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
137 Judiciary - Fund Maricopa Judges Salaries at 50% (2 Year Phase In/Start in FY 20)			6.5	13.1
138 DJC - 32 Youth Correctional Officers		2.1	2.1	2.1
139 DJC - Fund Shift to Land Trust Funds		(1.0)	(1.0)	(1.0)
140 DJC - Retirement Adjustment		2.1	2.1	2.1
141 Land - Fund Shift to Trust Management Fund		(1.2)	(1.2)	(1.2)
142 Leg. - Aud. General - Rent Adjustment (\$228k)		0.2	0.2	0.2
143 Leg. - Aud. General - Additional Capacity for Caseload		0.2	0.2	0.2
144 Leg. - Aud. General - Additional Staff (FY 19 - \$585k/FY 20 - \$1.08 M)		0.6	1.1	1.1
145 Leg. - Ombudsman - Salary/Rent (\$52k)		0.1	0.1	0.1
146 Postsecondary Ed - Remove College Readiness Funding (\$235k)		(0.2)	(0.2)	(0.2)
147 DPS - Don't Restore GIITEM Funding (Redirect to DPS Mobile Housing)		(1.2)	(1.2)	(1.2)
148 DPS - Retirement Adjustment		0.2	0.2	0.2
149 DPS - Fund Shifts (MVLIE - \$1.25 M / CCW and Other Funds - \$2.5 M)		(3.8)	(3.8)	(3.8)
150 DPS - Highway Safety Fee Offset			(51.7)	(51.7)
151 Real Estate - Efficiency Savings (\$91k)		(0.1)	(0.1)	(0.1)
152 Revenue - Reduced Postage Costs (\$425k)		(0.4)	(0.4)	(0.4)
153 Revenue - Lump Sum Reduction		(0.5)	(0.5)	(0.5)
154 Revenue - Rent Savings		(0.5)	(0.5)	(0.5)
155 Revenue - Fund Shift to Liability Setoff Fund		(0.4)	(0.4)	(0.4)
156 Revenue - Enforcement Staff 25 FTE		2.0	2.0	2.0
157 Sec of State - Election Funding (\$4 M Total)		Plus OF - \$615k		
158 Tax Appeals - Employee Benefits Costs (\$11k)	0.1	0.1	0.1	0.1
159 Transportation - Fund Shift (\$51k)		(0.1)	(0.1)	(0.1)
160 Water Resources - Fund Shift to Water Resources Fund		(0.3)	(0.3)	(0.3)
161 Other - Agency Reductions (Starting in FY 20)			(8.0)	(8.0)
162 Other - IT Pro Rata Charge Increase		0.7	0.7	0.7
163 Other - Retirement Adjustment (Non-ADC/DJC/DPS)		1.7	1.7	1.7
164 Other - EORP Retirement Adjustment (Includes Superior Court)		4.7	4.7	4.7
165 Other - Increase Revertments Estimate		(4.3)	(4.3)	(4.3)
166 Capital - Agency Rent Adjustments (All Other - \$499k)		(0.5)	(0.5)	(0.5)
167 Capital - State Building Rent Increase		3.3	3.3	3.3
168 Subtotal - Ongoing Changes to JLBC Baseline	\$ (27.6)	\$ 196.1	\$ 362.8	\$ 567.7
169 Total Ongoing Spending	\$ 9,638.7	\$ 10,154.9	\$ 10,696.9	\$ 11,218.5
170 JLBC Baseline One-Time Spending	\$ 161.7	\$ 96.8	\$ 57.9	\$ 27.1

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

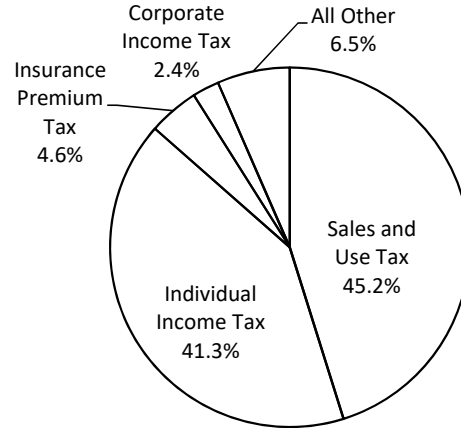
	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
One-Time Changes to JLBC Baseline				
171 Agriculture - Industrial Hemp Licensing Start Up Funding (\$750k) (Ch. 287)			0.8	
172 AHCCCS - Substance Use Disorder Services Fund Deposit (1st SS, Ch. 1)	10.0			
173 AHCCCS - Health Insurer Fee Savings - Post Baseline JLBC Score (Federal CR)			(22.9)	
174 Arts - Continue One-Time Funding		BSF - \$2.0 M		
175 Attorney General - Sec of State Litigation Expenses	Risk Mgmt - 0.5 M	Risk Mgmt - 0.5 M		
176 DCS - Revert DCS Backlog Privatization Appropriation	(2.7)			
177 Corp Comm. - Railway Safety Inspectors (Ch. 333)		0.2		
178 Counties - DJC Offset		11.3		
179 Counties - Yavapai Sheriff Reentry Planning (Ch. 342)		Other Fund - \$0.5 M	Other Fund - 0.5 M	Other Fund - 0.5 M
180 Counties - Partial EORP Cost Offset		1.7		
181 ACJC - Computerized Criminal History Upgrade		Other Fund - \$0.6 M	Other Fund - 0.6 M	Other Fund - 0.6 M
182 DES - Food Banks		1.0		
183 DES - SNAP Benefits Match Program (Ch. 334)		0.4		
184 DES - DD One-Time Funding		13.0		
185 ADE - Prop 301 Bridge		64.1	64.1	64.1
186 ADE - Navajo Code Writing Program (Ch. 290)		Other Fund - \$0.5 M		
187 ADE - Civics Pilot Program (Ch. 289)			0.5	
188 ADE - Gifted Pupils		1.0		
189 ADE - Mayer Unified School District Funding	0.3			
190 Forestry - Fire Suppression Supplemental	4.1			
191 Gaming - Breeders Award Fund (OF - Racing Regulation Fund)		Other Fund - \$250k		
192 Governor - Continue Youth Education Success One-Time Funding		1.5		
193 DHS - Alzheimers Funding (OF - Health Research Fund)		Other Fund - \$2.0 M		
194 DPS - Peace Officer Training		CCW - \$0.8 M		
195 PSPRS - Prescott Fire Employer Group Deposit		1.0		
196 SFB - Building Renewal Funding - One-Time	10.0	34.4		
197 SFB - New Construction - Final Conceptual Approvals			(5.1)	(3.4)
198 Sec of State - Congressional Special Election	2.5			
199 Sec of State - Voter Registration Database		HAVA - \$2.0 M		
200 Sec of State - Revert Unused Prop 123 Election Funds	(3.0)			
201 Transportation - West Valley Project - \$60k		0.1		
202 Universities - ASU - One-time Funding		4.2		
203 Universities - NAU - One-time Funding		1.6		
204 Universities - UA - One-time Funding		2.2		
205 Universities - ASU - Arizona and Mexico Economic Development (\$250k)		0.3		
206 Universities - NAU - One-time Freedom School Funding		0.5		

ENACTED GENERAL FUND BUDGET 4-YEAR ANALYSIS
(\$ in Millions)

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Estimate	FY 2021 Estimate
207 Universities - Freedom Schools (\$1 M ASU (\$100k Oxford Program) / \$1 M UA)		2.0		
208 Veterans Services - Hyperbaric Oxygen Therapy (\$25k)		0.1		
209 Water Resources - Water Study		0.1		
210 Water Resources - Water Protection Fund Deposit (Ch. 330)		0.4		
211 Other - HITF - General Fund Deposit		10.0		
212 Other - Named Claimants (\$60k)	0.1			
213 Capital - ADOA - Repeal FY 2019 Building Renewal Advance Approp		(5.7)		
214 Capital - DEMA - Tucson Readiness Center		3.7		
215 Capital - DPS - Modular Housing (Redirect \$1.2 M From GIITEM Line)		1.2		
216 Capital - ADOT - I-10 Project VW Lawsuit Fund Shift		(12.5)		
217 Capital - ADOT - I-10 Project Reversion (\$230k)	(0.2)			
218 Subtotal - One-Time Changes to JLBC Baseline	\$ 21.1	\$ 137.8	\$ 37.4	\$ 60.7
219 Total One-Time Spending	\$ 182.8	\$ 234.6	\$ 95.3	\$ 87.8
220 Total Spending	\$ 9,821.5	\$ 10,389.5	\$ 10,792.2	\$ 11,306.3
221 Cash Balance	\$ 204.3	\$ 235.7	\$ 187.1	\$ 101.6
222 Structural Balance	\$ 109.8	\$ 150.3	\$ 44.9	\$ 2.3

FY 2019 General Fund Revenue - Where It Comes From

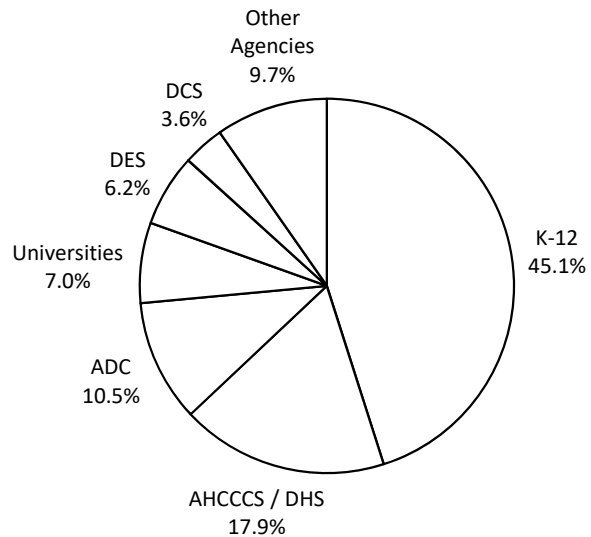
Source	Revenue (Millions)
Sales and Use Tax	\$ 5,010.7
Individual Income Tax	4,585.7
Insurance Premium Tax	506.6
Corporate Income Tax	266.8
Other Ongoing	610.3
One-Time Revenues	115.7
TOTAL REVENUE	\$ 11,095.8 ^{1/2/}



^{1/} Does not include beginning balance of \$205 million
^{2/} \$675 million of this amount is distributed as urban revenue sharing.

FY 2019 General Fund Appropriations - Where It Goes

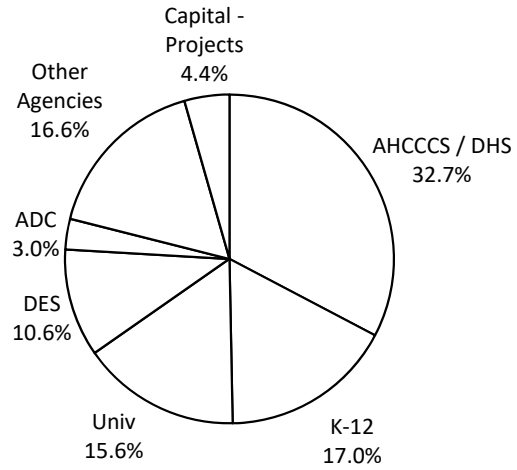
Budget Unit	Appropriation (Millions)
K-12 Education (ADE)	\$ 4,704.7
AHCCCS / DHS	1,867.0
Corrections	1,099.7
Universities	725.5
Economic Security	650.9
Child Safety	375.8
Other Agencies	1,010.9
TOTAL BUDGET	\$ 10,434.5 ^{1/}



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

FY 2019 Total Spending - All Sources ^{1/}

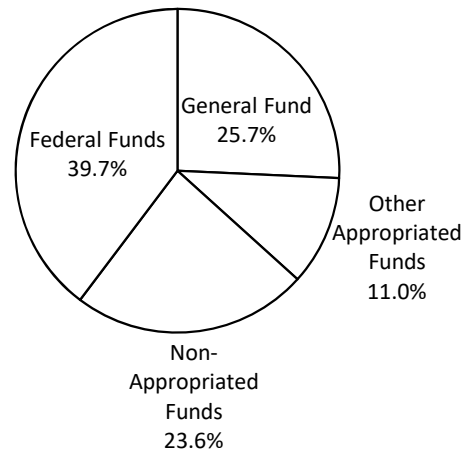
Budget Unit	Spending (Millions)
AHCCCS / DHS	\$ 13,262.0
K-12 Education (ADE)	6,899.2
Universities	6,330.0
Economic Security	4,305.3
Corrections	1,221.1
Other Agencies / Distributions	6,752.5
Capital - Projects	1,796.6
TOTAL	\$ 40,566.7



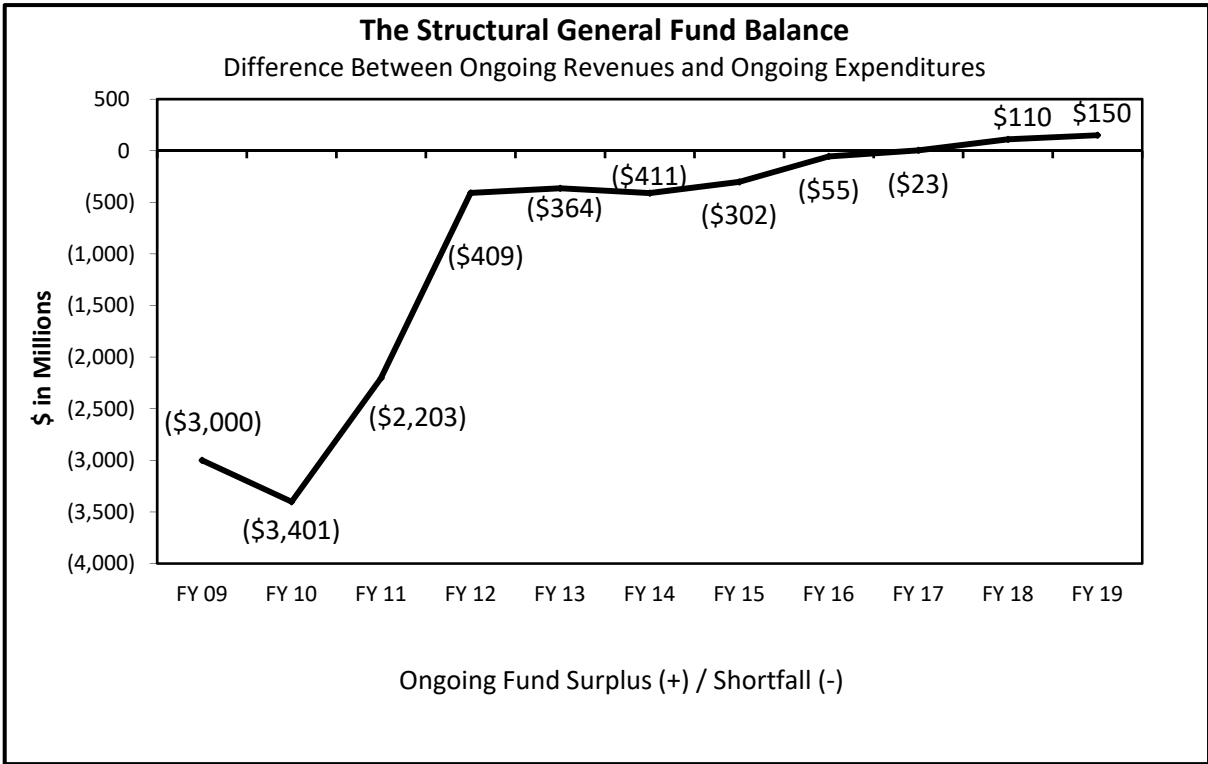
^{1/} Does not include administrative adjustments and revertsments.

FY 2019 Total Spending by Fund Source ^{1/}

Fund Source	Spending (Millions)
General Fund	\$ 10,434.5
Other Appropriated Funds	4,453.4
Non-Appropriated Funds	9,567.3
Federal Funds	16,111.6
TOTAL	\$ 40,566.7



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

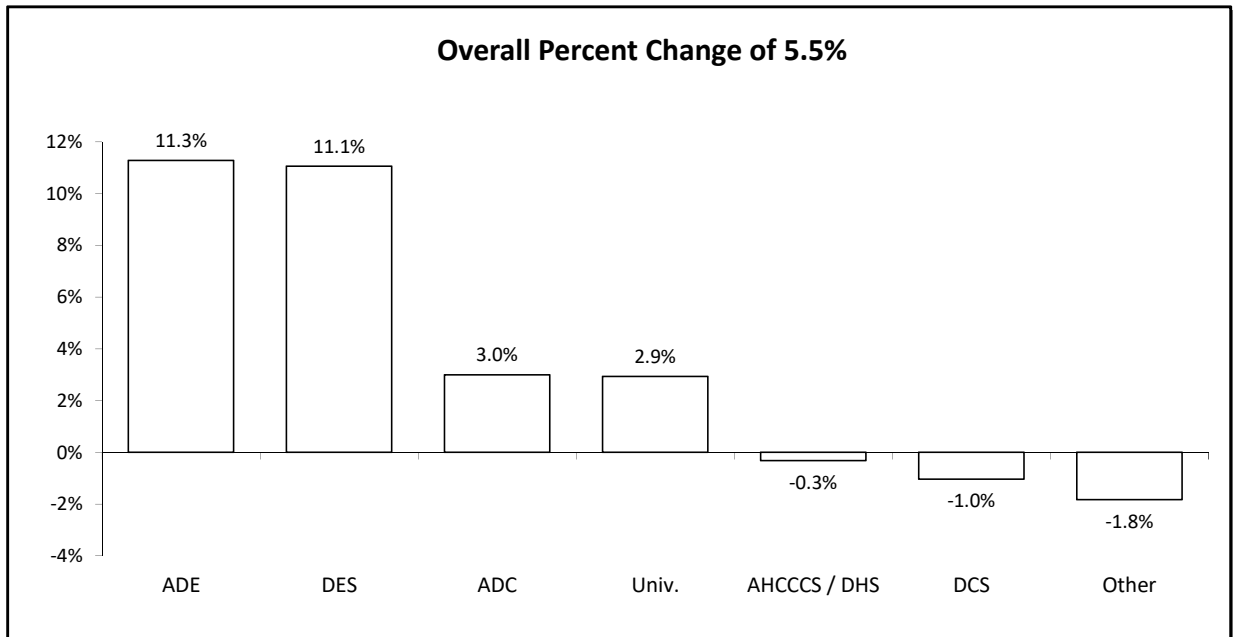
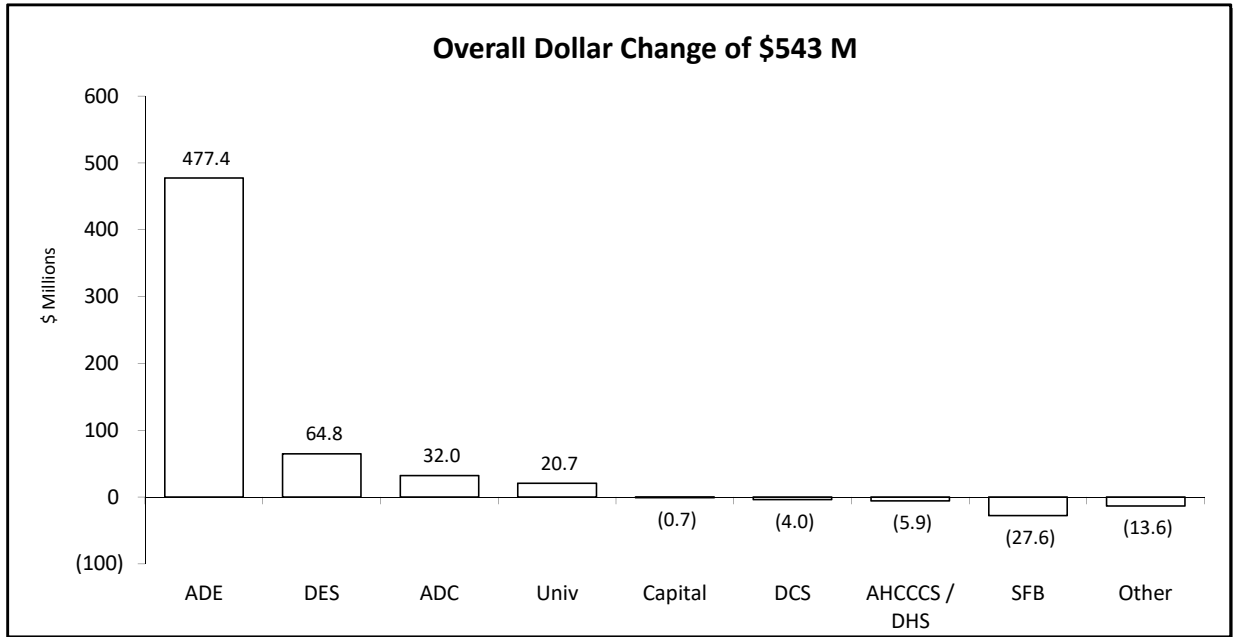


Recent History of Appropriated Ongoing General Fund Structural Balance 1/ (\$ in Millions)

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
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	9,357	9,380	(23)
2018	9,749	9,639	110
2019	10,305	10,155	150

1/ Excludes one-time revenues and expenditures.

Changes to Major Agencies' General Fund Budget 1/ FY 2018 to FY 2019



1/ Represents change in General Fund spending from FY 2018 (including supplementals and ex-appropriations) to FY 2019. Excludes changes in Administrative Adjustments and Revertments.

FY 2019 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

General Fund Cash Balances

- Given forecasted FY 2018 General Fund revenues of \$10.03 billion and spending of \$9.82 billion, the budget has a projected FY 2018 cash balance of \$204 million. Given forecasted FY 2019 General Fund revenues of \$10.63 billion and spending of \$10.39 billion, the budget has a projected FY 2019 cash balance of \$236 million.
- Under the 3-year budget projections, there would be a cash balance of \$187 million in FY 2020 and a cash balance of \$102 million in FY 2021.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve of \$460 million.

General Fund Structural Balances

- The General Fund structural balance is the difference between ongoing General Fund revenues and expenditures.
- The budget has a projected FY 2018 structural balance of \$110 million in FY 2018 and \$150 million in FY 2019.
- Under the 3-year budget projections, there would be a structural balance of \$45 million in FY 2020 and \$2 million in FY 2021.

General Fund Revenues

- Projected FY 2019 revenues are \$10.63 billion, including:
 - ⇒ Base revenues are projected to grow by \$492 million, or 4.7%.
 - ⇒ The beginning balance would increase by \$54 million, from \$151 million at the beginning of FY 2018 to \$204 million at the start of FY 2019.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would decrease from \$681 million to \$675 million primarily due to lower corporate income tax collections, thereby increasing state revenue by \$6 million.
 - ⇒ Previously enacted tax and revenue legislative changes would reduce state revenue by \$(75) million, primarily from a phase-in of a reduction in corporate income taxes.
 - ⇒ The DPS Highway Safety Fee Offset will increase revenues by \$72 million by freeing up \$30 million of Highway Expansion and Extension Loan Program (HELP) funds and \$42 million of Vehicle License Tax monies for transfer to the General Fund.
 - ⇒ One-time revenues including fund transfers would decrease from \$126 million in FY 2018 to \$116 million in FY 2019, decreasing state revenues by \$(10) million.
 - ⇒ Overall net revenues are forecast to increase in FY 2019 by \$600 million, or 6.0%, from \$10.03 billion in FY 2018 to \$10.63 billion in FY 2019.

General Fund Spending

- FY 2019 General Fund spending is projected to be \$10.39 billion, an increase of \$568 million, or 5.8%, above FY 2018.
- The entire FY 2019 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$40.5 billion.

Education

Department of Education

- ADE General Fund spending increases by \$477.4 million, or 11.3%, including:
 - ⇒ \$275.0 million for the first year of a 3-year plan to raise teacher salaries by 20%.
 - ⇒ \$100.0 million for first year of a 5-year plan to restore additional assistance funding.
 - ⇒ \$8.8 million for FY 2018 formula base adjustments.
 - ⇒ \$84.0 million for 1.15% student growth, for a total student count of 1.12 million.
 - ⇒ \$104.9 million for a 1.8% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(40.6) million for an increase in property tax collections due to new construction.
 - ⇒ \$(41.3) million to offset higher endowment earnings, including \$(24.9) million from expiring SFB debt service.
 - ⇒ \$(8.0) million for one-time savings due to Special Education Fund carry-forward surplus.
 - ⇒ \$1.8 million to fully fund the Base Support Level (BSL) for large JTEDs.
 - ⇒ \$(19.0) million to shift desegregation property taxes to the secondary level.
 - ⇒ \$5.3 million for the Education Learning and Accountability System (ELAS) operating costs.
 - ⇒ \$1.0 million for a computer science pilot program.
 - ⇒ \$1.0 million for one-time funding for Gifted Education.

- ⇒ \$4.0 million for Early Literacy increase to \$12.0 million (already appropriated).
- ⇒ \$(600,000) to eliminate one-time funding for a Teacher Professional Development pilot and for Mayer Unified due to temporary enrollment losses related to natural disasters.
- ⇒ \$59,300 for statewide adjustments.
- ⇒ \$600,000 for property tax statutory changes.
- ⇒ \$262,400 for Empowerment Scholarship Account (ESA) growth.
- The budget continues to defer \$930.7 million in General Fund spending for school district payments from FY 2019 to FY 2020.

School Facilities Board

- SFB General Fund spending decreases by \$(27.6) million, or (9.1)%, including:
 - ⇒ \$7.3 million for an increase in one-time building renewal grant monies. The FY 2019 budget includes one-time funding of \$34.4 million for building renewal grants.
 - ⇒ \$(35.5) million for decreased debt service associated with expiring lease-purchase agreements.
 - ⇒ \$618,100 for increased costs of new school construction. The FY 2019 authorizations include 6 new schools in Chandler, Queen Creek, and Tolleson that would be completed in FY 2020.
- The budget includes a total of \$87.6 million for new construction, which includes \$38.0 million for the second and final year of new FY 2018 authorizations and \$49.6 million for the first year of 6 new FY 2019 authorizations.

Universities

- The Universities' General Fund spending increases by \$20.7 million, or 2.9%, including:
 - ⇒ \$27.0 million for the first year of the 2017 Capital Infrastructure Funding program's annual appropriations.
 - ⇒ \$(15.0) million for the removal of one-time funding for operating or capital expenditures.
 - ⇒ \$8.0 million for new one-time funding for operating or capital expenditures.
 - ⇒ \$2.5 million for one-time funding for the operations of the School of Civic and Economic Thought and Leadership (ASU), the Center for the Philosophy of Freedom (UA), and the Economic Policy Institute (NAU).
 - ⇒ \$250,000 for a one-time economic development project between the state of Arizona and Mexico.
 - ⇒ \$(2.1) million for statewide adjustments.
- Total university enrollment is expected to be approximately 176,200 full-time equivalent students in FY 2019, or 3.5% above FY 2018.

Community Colleges

- Community College General Fund spending increases by \$2.1 million, or 3.8%, including:
 - ⇒ \$1.8 million for equalization formula growth.
 - ⇒ \$200,000 for Tohono O'Odham Community College for first time funding from the Tribal Community Colleges formula.
 - ⇒ \$305,600 to increase Rural County Allocation as a result of increased enrollment by students in counties without a community college district.
 - ⇒ \$(50,000) to eliminate one-time funding for Gila Workforce Development Aid.
- FY 2017 rural district enrollment decreased by (127) full-time equivalent students, or (0.4)%, for a total enrollment of 29,097. Including the Maricopa and Pima districts, total enrollment decreased by (543), or (0.5)%, for total enrollment of 115,951.

Health and Welfare

AHCCCS

- AHCCCS' General Fund spending decreases by \$(8.2) million, or (0.5)%, including:
 - ⇒ \$15.2 million for formula adjustments, including 1.0% enrollment growth and a 2.5% capitation rate increase.
 - ⇒ \$(15.2) million to transfer Children's Rehabilitative Services funding of the developmentally disabled population to the Department of Economic Security as part of AHCCCS' initiative to integrate care.
 - ⇒ \$(197,600) for savings associated with the integration of the American Indian Health Program.
 - ⇒ \$(35.2) million to shift Proposition 204 tobacco monies to behavioral health services, which results in a corresponding increase of \$35.2 million from the Hospital Assessment Fund for acute care services.
 - ⇒ \$9.9 million for a 2.5% provider rate increase for inpatient and outpatient hospital services.
 - ⇒ \$2.7 million for a 3.0% provider rate increase for skilled nursing facilities and assisted living facilities.
 - ⇒ \$1.9 million for Proposition 206 provider rate adjustments in the long term care program.

- ⇒ \$2.6 million to eliminate county contributions to the Disproportionate Uncompensated Care (DUC) pool.
- ⇒ \$3.0 million for additional behavioral health services in schools.
- ⇒ \$1.8 million to increase supplemental funding for Critical Access Hospitals (CAHs).
- ⇒ \$(2.5) million to eliminate prior quarter coverage.
- ⇒ \$(1.0) million to reduce reimbursement for out-of-network inpatient behavioral health facilities.
- ⇒ \$(10.0) million to remove one-time funding added as an FY 2018 supplemental to address the opioid epidemic.
- ⇒ \$(1.2) million to transfer Non-Medicaid Seriously Mentally Ill monies to the Department of Health Services for expenses at the Arizona State Hospital.
- ⇒ \$20.0 million for restoration of a federal health insurer fee.
- ⇒ \$100,000 for a suicide prevention coordinator to assist school districts and charter schools in suicide prevention.
- ⇒ \$(119,800) for statewide adjustments.
- AHCCCS enrollment is projected to grow to 1.83 million by June 2019. This level represents a caseload increase of 18,600, or 1.0%, above June 2018.

Department of Child Safety

- DCS' General Fund spending decreases by \$(4.0) million, or (1.0)%, including:
 - ⇒ \$1.2 million for 10.8% caseload growth in the Adoption Subsidy program to a level of 33,200 children by June 2019.
 - ⇒ \$(5.0) million for a fund shift to the Federal TANF Block Grant.
 - ⇒ \$(132,100) for statewide adjustments.
- DCS' benchmark is to have fewer than 13,964 children in out-of-home care by the end of FY 2019. As of February 2018, there were 15,065 children in out-of-home care.

Department of Economic Security

- DES General Fund spending increases by \$64.8 million, or 11.1%, including:
 - ⇒ \$34.1 million for Developmental Disabilities formula adjustments, including 4.5% enrollment growth and a 3.5% capitation rate increase.
 - ⇒ \$15.2 million to transfer Children's Rehabilitative Services funding of the developmentally disabled population to the Department of Economic Security as part of AHCCCS' initiative to integrate care.
 - ⇒ \$3.9 million for Proposition 206 provider rate adjustments associated with minimum wage increases.
 - ⇒ \$6.4 million for state-only room and board costs for Medicaid clients in residential settings.
 - ⇒ \$2.4 million for DD state-only case management expenses.
 - ⇒ \$1.0 million to increase one-time funding for DD providers from \$12.0 million in FY 2018 to \$13.0 million in FY 2019.
 - ⇒ \$1.0 million for one-time funding for food banks.
 - ⇒ \$174,200 for a 3% rate increase for skilled nursing facilities and assisted living facilities serving DD clients.
 - ⇒ \$400,000 for the SNAP Benefits Match Program.
 - ⇒ \$290,100 for statewide adjustments.
- Medicaid Developmental Disability caseloads are projected to grow to 33,705 by June 2019. This level represents a caseload increase of 1,452, or 4.5%, above June 2018.
- TANF Cash Benefits caseloads are projected to be flat in FY 2019, resulting in estimated enrollment of 14,481 by June 2019.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending increases by \$32.0 million, or 3.0%, including:
 - ⇒ \$26.5 million for an increased employer retirement contribution rate primarily in the Corrections Officer Retirement Plan.
 - ⇒ \$15.0 million for inmate health care rate increases.
 - ⇒ \$(6.7) million for statewide adjustments.
 - ⇒ \$(2.8) million for reduced private prison placements.
- The systemwide prison population is projected to be 42,200, with no growth above FY 2018. In June 2019, ADC would have a permanent bed shortfall of (3,545). Taking into account 5,298 temporary beds, the shortfall becomes a surplus of 1,753 beds.

Judiciary

- Judiciary General Fund spending increases by \$5.9 million, or 5.3%, including:
 - ⇒ \$3.8 million for a higher employer contribution rate in the Elected Official Retirement Plan (EORP).
 - ⇒ \$1.0 million for new adult standard probation officers and a shortfall in the state's share of existing officers' salaries.
 - ⇒ \$97,600 to annualize the final phase-in of a 3% pay increase for Supreme, Appeals, and Superior Court judges.
 - ⇒ \$137,000 for a Risk Management funding shift.
 - ⇒ \$240,000 to annualize funding for Court Ordered Removals.
 - ⇒ \$(293,700) for statewide adjustments.

Department of Juvenile Corrections

- DJC General Fund spending increases by \$3.2 million, or 16.3%, including:
 - ⇒ \$2.1 million to hire an additional 32 youth corrections officers.
 - ⇒ \$2.1 million for an increased employer retirement contribution rate primarily in the Corrections Officer Retirement Plan.
 - ⇒ \$(1.0) million for a fund shift to the State Charitable, Penal and Reformatory Institutions Land Fund.
 - ⇒ \$(80,600) in statewide adjustments.

Department of Public Safety

- DPS General Fund spending decreases by \$(5.4) million, or (4.9)%, including:
 - ⇒ \$(3.7) million for fund shifts to non-General Fund sources.
 - ⇒ \$(1.2) million for reduced GIITEM funding.
 - ⇒ \$189,300 for a higher employer contribution rate in PSPRS and ASRS.
 - ⇒ \$(636,500) for a health insurance adjustment.
- The budget reduces the DPS Highway User Revenue Fund (HURF) appropriation by \$84.0 million in FY 2019 and replaces it with a new Highway Safety Fee established by Laws 2018, Chapter 265.

Local Issues

- The budget includes an increase of \$3.3 million for a one-time distribution of \$11.3 million to counties to fully offset their contributions toward the cost of the Department of Juvenile Corrections (DJC).
- The budget continues to appropriate \$7.7 million to be allocated equally among counties with a population of less than 900,000 according to the 2010 Decennial Census. With one exception, each county receives \$550,050. Graham County receives \$1,050,050.
- The budget includes an increase of \$1.7 million from the General Fund in FY 2019 for a one-time distribution to counties to offset increased Elected Officials' Retirement Plan (EORP) liabilities.
- The budget includes a decrease of \$(6.0) million, or (0.9)%, for lower urban revenue sharing payments to city governments, mostly due to lower corporate income tax collections. Total funding would be \$674.8 million.
- The budget includes an increase of \$12.0 million for local road construction through the HURF formula. This amount consists of an increase of \$42.0 million from HURF formula monies, offset by a decrease of \$(30.0) million from repealing a HELP Fund transfer.

General Government

Revertments

- The budget assumes projected revertments at \$(145) million, compared to \$(170) million in FY 2018, primarily due to the elimination of a one-time increase in AHCCCS revertments. (Revertments are unspent appropriations.)
- FY 2019 Administrative Adjustments are forecast to be \$100 million, which is unchanged from FY 2018.

State Employee Issues

FTE Positions

- The budget increases the Total Appropriated Funds Full-Time Equivalent (FTE) ceiling by 117.9 FTE Positions in FY 2019. These adjustments would bring the total FTE Position ceiling to 53,266.7 in FY 2019.

Statewide Adjustments

- The budget includes the following statewide adjustments:
 - ⇒ One-time employer contributions to the State Employee Health Insurance Trust Fund (HITF).
 - ⇒ Information Technology Pro-rata agency charges.
 - ⇒ Revised rent payments.
 - ⇒ Employer retirement contributions.

State Employee Health Insurance

- The budget includes a decrease of \$(15.0) million from the General Fund (and \$(46.4) million in Total Funds) to provide \$10.0 million for a one-time FY 2019 health insurance adjustment.

Capital

- The budget includes \$63.2 million for building renewal and capital projects. Of this amount, \$5.0 million is financed from the General Fund and \$58.2 million is financed from Other Funds. These amounts include the following:
 - ⇒ \$23.1 million from Other Appropriated Funds for building renewal at ADC, ADOT, ADOA, Game and Fish, and the State Lottery.
 - ⇒ \$40.1 million including \$5.0 million from the General Fund and \$35.1 million from Other Appropriated Funds for new projects at ADOT, ADOA, DEMA, Game and Fish, the State Fair, State Parks, DPS, Pioneers' Home, and Department of Veteran Services.

FY 2019 FUNDING FORMULA SUSPENSIONS 1/

	FY 2019 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 14,171,800 <u>2/</u>
Department of Education - District Additional Assistance	247,469,900 <u>3/</u>
Department of Education - Charter School Additional Assistance	13,628,800 <u>4/</u>
Department of Environmental Quality - Water Quality Assurance Revolving Fund (WQARF)	15,000,000 <u>5/</u>
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>6/</u>
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	5,508,700 <u>7/</u>
Universities - Arizona Financial Aid Trust	23,738,400 <u>8/ 9/</u>
 Total - FY 2019 Statutory Funding Formula Suspensions	 \$ 320,417,600
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 31,795,900 <u>9/</u>
Department of Corrections - Building Renewal	16,819,000 <u>9/</u>
Universities - Building Renewal	148,400,000 <u>9/</u>
 Total - FY 2019 Non-Statutory Funding Formula Suspensions	 \$ 197,014,900

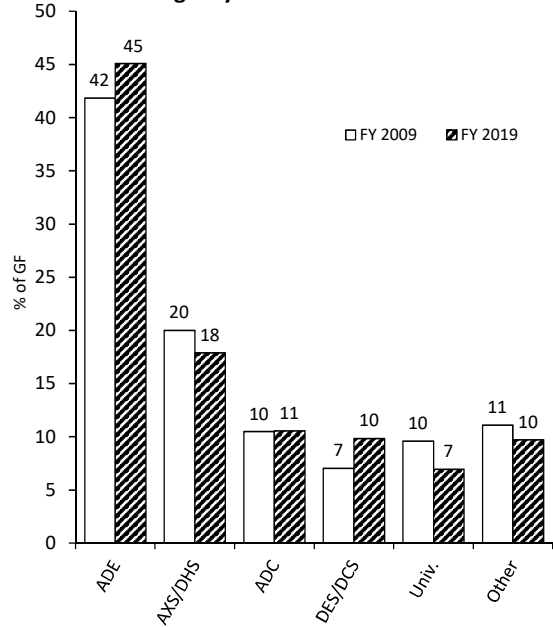
- 1/ Represents the General Fund cost of funding formulas that are currently suspended on an annual basis.
- 2/ Represents partial suspension of Pinal STEM and Workforce Programs formula amounts and full suspension of the Maricopa and Pima STEM and Workforce Programs formula amounts. Operating State Aid for Maricopa and Pima Community Colleges is also suspended, but the dollar value of the suspensions 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 FY 2018.
- 3/ Represents 54.7% of the formula requirement that is unfunded. Excludes approximately \$19,692,000 suspended in non-state aid districts, which are not funded through the state budget. The FY 2019 budget requires phase out of this suspension by FY 2023.
- 4/ Represents 3.6% of the formula requirement that is unfunded. The FY 2019 budget requires phase out of this suspension by FY 2023.
- 5/ In lieu of General Fund, the FY 2019 budget provides a total of \$15,552,000 in total appropriated and non-appropriated funds in FY 2019, compared to the statutory allocation of \$15,000,000.
- 6/ Excludes costs that counties incur to treat RTC patients in alternative (non-Arizona State Hospital) facilities.
- 7/ This amount is in addition to the \$10,000,000 allocated to DPS from the HURF pursuant to A.R.S. § 28-6537. The FY 2019 budget assumes the elimination of HURF for DPS expenses in FY 2020.
- 8/ Based on the required 2:1 match of state funds for student fees levied by the universities, the total FY 2019 General Fund contribution would be \$33,779,600. Of this amount, the budget assumes the continuation of \$10,041,200 in General Fund support.
- 9/ Based on agency estimates.

"THEN AND NOW" - FY 2009 vs. FY 2019 General Fund Spending

Comparison of 10 Largest General Fund Budgets ^{1/}
(\$ in Millions)

	FY 09 Actuals	FY 19 Approp.	\$ Change FY 09-19	% Change FY 09-19
K-12 Education (ADE)	\$ 3,650.9	\$ 4,704.7	\$ 1,053.8	28.9
AHCCCS / DHS ^{2/}	1,744.4	1,867.0	122.6	7.0
Corrections	916.3	1,099.7	183.4	20.0
Universities	838.1	725.5	(112.6)	(13.4)
Economic Security	613.5	650.9	37.4	^{3/} 6.1
Child Safety	-	375.8	375.8	^{3/} NA
School Facilities Board	87.7	274.7	187.0	213.2
Judiciary	121.5	116.6	(4.9)	(4.0)
Public Safety	54.6	104.3	49.7	91.1
Other	702.4	515.3	(187.1)	(26.6)
TOTAL	\$ 8,729.4	\$ 10,434.5	\$ 1,705.2	19.5%

Agency Share of General Fund

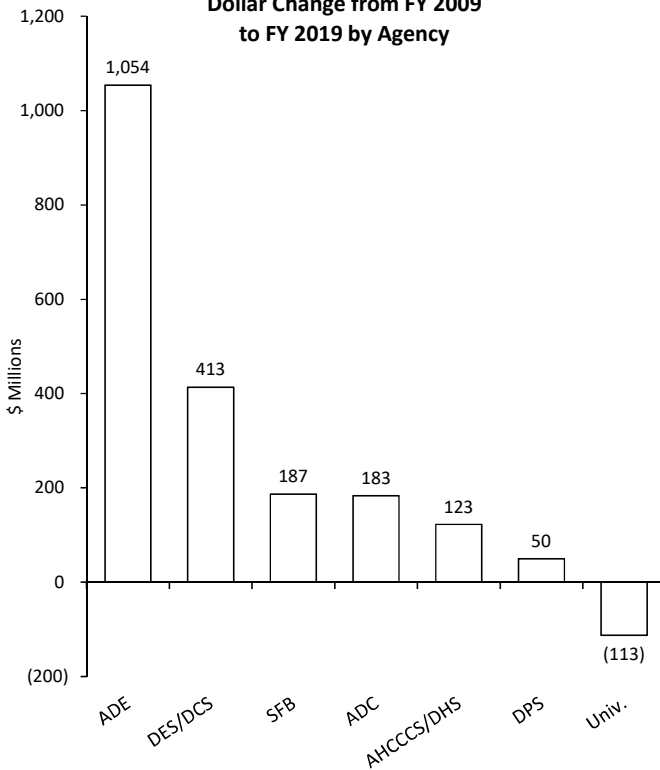


^{1/} Represents individual agency General Fund spending only. Excludes administrative adjustments, revertsments, and any Budget Stabilization Fund deposits.

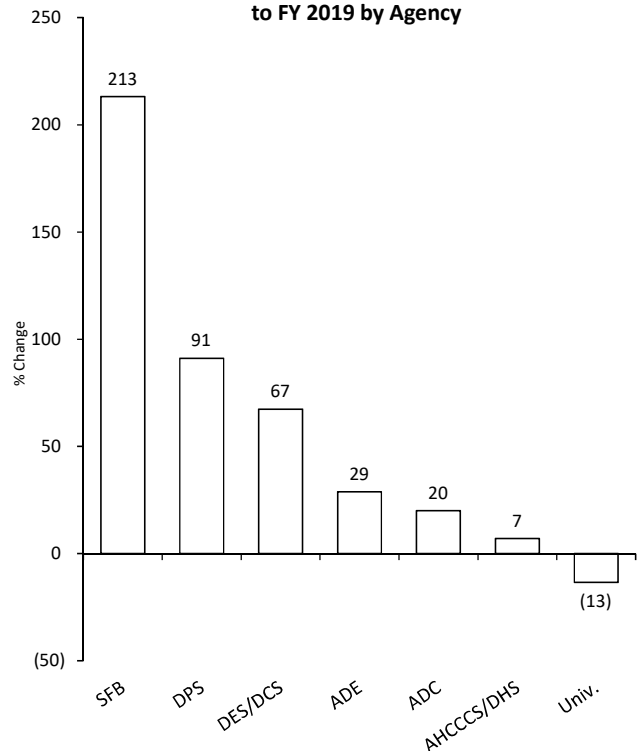
^{2/} AHCCCS and DHS budgets displayed together to provide comparison of total healthcare spending in FY 2009 and FY 2019.

^{3/} DCS was part of DES prior to FY 2015.

**Dollar Change from FY 2009
to FY 2019 by Agency**



**Percent Change from FY 2009
to FY 2019 by Agency**



"THEN AND NOW" - FY 2009 vs. FY 2019 General Fund Revenue and Ending Balances

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

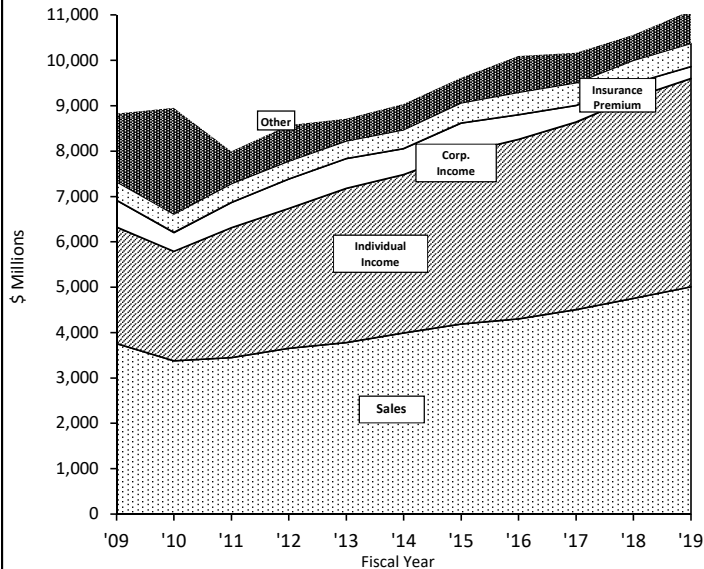
Fiscal Year	Revenue	Expenditures	Ending Balance	Ending Balance as a % of Revenue
2009	8,248.5	8,729.2	(480.7)	-5.8%
2010	7,843.8	7,849.5	(5.7)	-0.1%
2011	8,378.0	8,374.8	3.2	0.0%
2012	9,066.7	8,669.7	397.0	4.4%
2013	9,559.5	8,664.0	895.5	9.4%
2014	9,381.3	8,803.9	577.4	6.2%
2015	9,581.9	9,269.6	312.3	3.3%
2016	9,796.6	9,512.6	284.0	2.9%
2017	9,786.5	9,635.6	150.9	1.5%
2018	10,025.8	9,821.3	204.5	2.0%
2019	10,625.5	10,389.5	236.0	2.2%

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

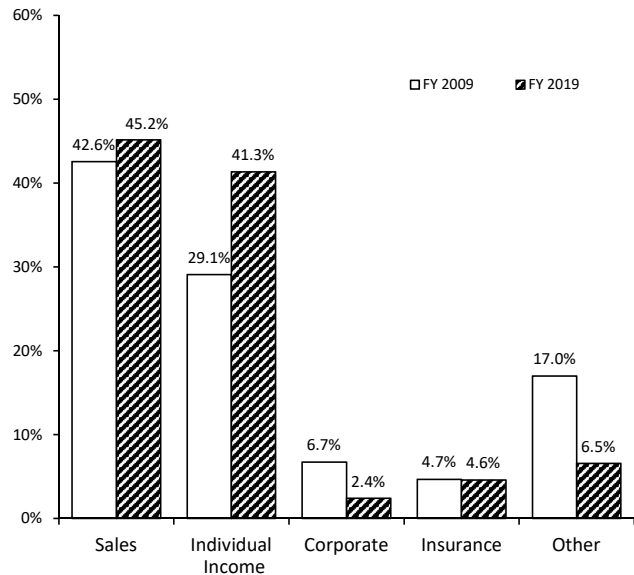
Fiscal Year	Sales	Indiv. Income	Corp. Income	Ins. Premium	Other
2009	42.6%	29.1%	6.7%	4.7%	17.0%
2010	37.7%	27.0%	4.6%	4.5%	26.1%
2011 <u>4/</u>	43.1%	35.8%	7.0%	5.2%	8.9%
2012 <u>4/</u>	42.6%	36.0%	7.5%	4.6%	9.3%
2013 <u>4/</u>	43.4%	39.0%	7.6%	4.4%	5.6%
2014	44.2%	38.6%	6.4%	4.6%	6.3%
2015	43.6%	39.1%	6.9%	4.7%	5.7%
2016	42.6%	39.2%	5.4%	4.9%	7.9%
2017	44.3%	40.6%	3.6%	5.0%	6.5%
2018	45.0%	41.9%	3.0%	4.8%	5.3%
2019	45.2%	41.3%	2.4%	4.6%	6.5%

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 2018 - 2020 1/2/

Chap. Bill No. Number	Reference Title	FY 2018 General Fund	FY 2019 General Fund	FY 2020 General Fund
Fifty-third Legislature - Second Regular Session (2018)				
2 SB 1185	Secretary of State; Appropriation; Elections	2,500,000		
98 HB 2513	Hyperbaric Oxygen Therapy; Veterans; Fund		25,000	
215 SB 1185	Appropriations; Named Claimants	59,900		
276 SB 1520	General Appropriations Act; 2018-2019*	9,215,900	9,264,981,800	1,133,237,400 <u>3/</u>
277 SB 1522	Capital Outlay; Appropriations; 2017-2018	(230,000) C	(13,264,500) C	
280 SB 1525	Environment; Budget Reconciliation; 2017-2018		(14,900,000)	
287 SB 1098	Industrial Hemp; Licensing			750,000
289 SB 1444	Schools; American Civics Education			500,000
330 SB 1039	Appropriation; Arizona Water Protection Fund		400,000	
333 SB 1181	Corporation Commission; Railway Safety Inspectors		196,600	
334 SB 1245	Appropriation; SNAP; Benefit Match; Produce		400,000	
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		11,545,800	9,237,838,900	1,134,487,400
Fifty-third Legislature - First Special Session (2018)				
1 SB 1001	Controlled Substances; Regulation; Appropriation	10,000,000		
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION		10,000,000	0	0
Fifty-third Legislature - First Regular Session (2017)				
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*	8,740,402,000	984,897,500	3,500,000 <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)		
334 SB 1197	Real Estate Appraisal	675,000		
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION		8,736,444,600	990,597,500	3,500,000
Fifty-second Legislature - Second Regular Session (2016)				
117 HB 2695	General Appropriations Act; 2016-2017	953,806,300		
248 HB 2665	Charter Schools; Preference; Foster Children	1,500,000		
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		955,306,300	0	0
Fifty-second Legislature - First Special Session (2015)				
1 HB 2001	Schools; Base Level; Appropriations* <u>5/</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-first Legislature - Second Regular Session (2014)				
18 HB 2703	2014-2015; General Appropriations <u>6/</u>	4,000,000	4,000,000	
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION		4,000,000	4,000,000	0
Permanent General Fund Appropriations and Allocations <u>7/</u> *				
9-602	Phoenix Convention Center Financing	22,499,000	22,996,300	23,500,000
15-1469.01	Community College Rural County Allocation	2,596,700	2,902,300	2,902,300
15-1670	University Research Infrastructure Financing (Thru FY 2031)	33,626,800	33,625,900	33,606,000
15-1671	University Infrastructure Capital Financing (Thru FY 2043)		27,000,000	27,540,000
26-263	Military Airport Planning; Appropriation	175,000	175,000	175,000
35-192	General Emergency Authority	4,000,000	4,000,000	4,000,000
37-1305	Wild Land Fire Emergency	3,000,000	3,000,000	3,000,000
38-810	Elected Officials' Retirement Plan Closure (Thru FY 2043)	5,000,000	5,000,000	5,000,000
41-2308	Special Sporting Event Marketing (FY 2022 - FY 2051)			
42-5031	Rio Nuevo Multipurpose Facility District <u>8/</u>	14,000,000	14,000,000	14,000,000
42-5031.01	Indian Tribal Postsecondary Educational Institutions	2,625,000	2,825,000	2,825,000
43-409	Arizona Commerce Authority/Income Tax Withholding	21,500,000	21,500,000	15,500,000
49-282	WQARF Priority Site Remediation <u>9/</u>	15,000,000	15,000,000	15,000,000
SUBTOTAL APPROPRIATIONS - PERMANENT		124,022,500	152,024,500	147,048,300
TOTAL APPROPRIATIONS		\$9,891,319,200	\$10,434,460,900	\$1,335,035,700

* Appropriation beyond FY 2020.

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

1/ For FY 2018 - FY 2020, 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/ Laws 2018, Chapter 276 appropriates \$1,133,237,400 in FY 2020 as follows: 1) \$930,727,700 for the payment of the FY 2019 K-12 payment deferral into FY 2020; 2) \$164,700,000 for the second year of teacher salary increases; 3) \$36,726,700 for SFB New Construction funding (FY 2019 Authorizations); and 4) \$1,083,000 and 10 FTE Positions to the Auditor General for operating expenditures.

4/ Laws 2017, Chapter 305 appropriates \$3,500,000 in FY 2020 as follows: 1) \$2,000,000 to DWR for drought contingency plans; and 2) \$1,500,000 to the Attorney General for operating expenditures of the criminal division.

- 5/ 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.
- 6/ FY 2018 - FY 2019 Amounts - Laws 2014, Chapter 18 contains the following: 1) 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; and 2) Section 132 appropriates \$3,000,000 annually from the General Fund through FY 2019 to NAU for biotechnology medical research.
- 7/ Permanent law authorizes these appropriations and allocations.
- 8/ Represents an estimated distribution based on monies allocated under A.R.S. § 42-5031.
- 9/ A.R.S. § 49-282 directs \$15,000,000 annually from corporate income tax receipts into the Water Quality Assurance Revolving Fund (WQARF). Laws 2017, Chapter 308 reduces the FY 2018 allocation to \$2,823,600 but utilizes balances of other DEQ funds, and Laws 2018, Chapter 280 reduces the FY 2019 allocation to \$0 but utilizes balances of other DEQ funds.

SUMMARY OF OTHER FUND APPROPRIATIONS By Individual Chapter For Fiscal Years 2018 and 2019 1/2/3/

Chap. Bill No. Number Reference Title	FY 2018 Other Fund	FY 2019 Other Fund
<u>Fifty-third Legislature - Second Regular Session (2018)</u>		
98 HB 2513 Hyperbaric Oxygen Therapy; Veterans; Fund* <u>4/</u>		
215 SB 1185 Appropriations; Named Claimants	77,100	
276 SB 1520 General Appropriations Act; 2018-2019*	16,316,500	3,987,831,900
277 SB 1522 Capital Outlay; Appropriations; 2017-2018		439,989,500 C
278 SB 1523 Criminal Justice; Budget Reconciliation; 2018-2019		200,000
280 SB 1525 Environment; Budget Reconciliation; 2017-2018		13,552,000
283 SB 1529 Revenues; Budget Reconciliation; 2018-2019		(30,000,000)
290 SB 1505 Native American Code Writers Program		500,000
291 HB 2022 Appropriation; ASDB; Education Program		2,070,000
305 HB 2416 Appropriation; Study; Prime Contracting Classification		75,000
312 HB 2527 Ticket Surcharge; Public Safety Equipment		3,073,000
342 SB 1476 County Sheriff; Reentry Planning; Appropriation* <u>5/</u>		500,000
346 SB 1504 Developmental Disability Rates; Appropriation		1,100,000
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION	16,393,600	4,418,891,400
<u>Fifty-third Legislature - First Special Session (2018)</u>		
1 SB 1001 Controlled Substances; Regulation; Appropriation	801,200	
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION	801,200	0
<u>Fifty-third Legislature - First Regular Session (2017)</u>		
43 SB 1091 Nuclear Emergency Appropriations; Assessments	2,503,100	2,526,300
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	3,949,823,400 <u>6/</u>	
306 SB 1523 Capital Outlay; Appropriations; 2017-2018	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	30,000,000
334 SB 1197 Real Estate Appraisal	(815,100)	
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION	4,362,104,800	32,526,300
<u>Fifty-first Legislature - Second Regular Session (2014)</u>		
18 HB 2703 2014-2015; General Appropriations <u>7/</u>	2,000,000	2,000,000
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION	2,000,000	2,000,000
TOTAL APPROPRIATIONS	\$4,381,299,600	\$4,453,417,700

- * Appropriation beyond FY 2019.
- C Designates a capital appropriation. All other appropriations are operating appropriations.
- 1/ For FY 2018 and FY 2019, 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 revertments.
- 4/ Laws 2018, Chapter 98 appropriates \$25,000 in FY 2023 from the Hyperbaric Oxygen Therapy for Military Veterans Fund to the General Fund.
- 5/ Laws 2018, Chapter 342 appropriates \$500,000 in FY 2020 and FY 2021 from the State Charitable, Penal and Reformatory Institutions Land Fund to the Yavapai County Sheriff's Office for reentry planning services.
- 6/ Includes an increase of \$12,760,000 for FY 2018 adjustments for the following items: University Tuition, Lottery Revenues, and Medical Board Employee Performance Incentive Program.
- 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 - Second Regular Session

<u>Bill No.</u>	<u>Reference Title</u>	<u>Description of Vetoed Bill</u>
HB 2002	automobile theft authority; appropriation	Would have appropriated all monies deposited into the Automobile Theft Authority Fund that exceeded the legislative appropriation required the Authority to submit a report for review to the Joint Legislative Budget Committee prior to spending the excess monies. Would have granted this authority for FY 2018 as well as future fiscal years.
HB 2004	ASRS; 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.
HB 2399	real estate licenses; online classes	Would have allowed real estate salespersons or broker applicants to fulfill hourly school requirements online, provided that the applicant completed an in-person examination and that the course was approved by the Department of Real Estate. This bill was later enacted under a different bill number (HB 2655) as Laws 2018, Chapter 327.

SUMMARY OF APPROPRIATED FUNDS BY AGENCY
Fiscal Years 2018 and 2019 1/

	Fiscal Year 2018			Fiscal Year 2019		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
BUDGET UNITS						
Accountancy, State Board of	\$0	\$2,042,200	\$2,042,200	\$0	\$2,037,900	\$2,037,900
Acupuncture Examiners, Board of	0	185,500	185,500	0	171,900	171,900
Administration, Arizona Department of	10,365,300	203,342,900	213,708,200	7,939,100	194,938,400	202,877,500
- Automation Projects Fund	12,300,000	55,761,900	68,061,900	5,000,000	23,125,100	28,125,100
Administrative Hearings, Office of	870,900	0	870,900	868,900	0	868,900
African-American Affairs, Arizona Commission of	125,800	0	125,800	127,200	0	127,200
Agriculture, Arizona Department of	9,604,000	1,716,500	11,320,500	9,640,000	1,720,200	11,360,200
AHCCCS	1,785,264,100	361,527,400	2,146,791,500	1,777,093,500	328,044,500	2,105,138,000
Arts, Arizona Commission on the	0	1,500,000	1,500,000	0	2,000,000	2,000,000
Athletic Training, Board of	0	120,600	120,600	0	123,500	123,500
Attorney General - Department of Law	26,344,200	47,114,500	73,458,700	25,940,300	49,023,800	74,964,100
Automobile Theft Authority	0	5,301,400	5,301,400	0	5,308,900	5,308,900
Barbers, Board of	0	345,800	345,800	0	401,100	401,100
Behavioral Health Examiners, Board of	0	1,777,800	1,777,800	0	1,772,300	1,772,300
Charter Schools, State Board for	1,200,600	0	1,200,600	1,209,800	0	1,209,800
Child Safety, Department of	379,790,800	180,610,300	560,401,100	375,838,700	189,715,700	565,554,400
Chiropractic Examiners, State Board of	0	455,100	455,100	0	429,700	429,700
Commerce Authority, Arizona	21,800,000	0	21,800,000	21,800,000	0	21,800,000
Community Colleges, Arizona	55,086,500	0	55,086,500	57,205,500	0	57,205,500
Contractors, Registrar of	0	12,268,400	12,268,400	0	12,300,100	12,300,100
Corporation Commission	621,500	26,652,400	27,273,900	814,600	26,965,900	27,780,500
Corrections, State Department of	1,067,641,400	51,553,200	1,119,194,600	1,099,670,000	53,963,100	1,153,633,100
Cosmetology, Board of	0	1,864,500	1,864,500	0	1,926,300	1,926,300
County Funding	15,650,700	0	15,650,700	20,566,200	500,000	21,066,200
Criminal Justice Commission, Arizona	0	9,202,600	9,202,600	0	7,258,100	7,258,100
Deaf and the Blind, Schools for the	21,932,000	11,878,700	33,810,700	21,659,300	13,607,900	35,267,200
Deaf and the Hard of Hearing, Commission for the	0	4,622,600	4,622,600	0	4,613,500	4,613,500
Dental Examiners, State Board of	0	1,229,900	1,229,900	0	1,300,500	1,300,500
Economic Opportunity, Office of	484,100	0	484,100	488,800	0	488,800
Economic Security, Department of	586,110,300	294,107,700	880,218,000	650,936,900	290,774,900	941,711,800
Education, State Board of	1,153,600	0	1,153,600	1,146,300	0	1,146,300
Education, Department of	4,227,258,400	254,458,700	4,481,717,100	4,704,652,000	291,154,100	4,995,806,100
Emergency and Military Affairs, Department of	11,238,300	1,438,400	12,676,700	11,098,200	1,461,600	12,559,800
Environmental Quality, Department of	2,823,600	80,222,400	83,046,000	0	82,063,500	82,063,500
Equal Opportunity, Governor's Office of	191,900	0	191,900	0	190,700	190,700
Equalization, State Board of	646,400	0	646,400	652,000	0	652,000
Executive Clemency, Board of	963,500	0	963,500	1,137,000	0	1,137,000
Exposition and State Fair Board, Arizona	0	12,153,300	12,153,300	0	12,549,300	12,549,300
Financial Institutions, Department of	2,201,000	3,226,800	5,427,800	1,984,800	4,012,600	5,997,400
Forestry and Fire Management, Arizona Department of	16,000,500	0	16,000,500	11,156,700	0	11,156,700
Funeral Directors and Embalmers, Board of	0	378,200	378,200	0	443,400	443,400
Game and Fish Department, Arizona	0	44,309,200	44,309,200	0	42,752,600	42,752,600
Gaming, Department of	1,779,500	15,624,200	17,403,700	1,779,500	15,657,700	17,437,200
Governor, Office of the	8,871,400	0	8,871,400	8,538,800	0	8,538,800

	Fiscal Year 2018			Fiscal Year 2019		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Governor's Office of Strategic Planning and Budgeting	2,014,600	0	2,014,600	2,022,100	0	2,022,100
Health Services, Department of	87,670,300	53,007,100	140,677,400	89,931,200	51,203,700	141,134,900
Historical Society, Arizona	3,179,800	0	3,179,800	3,195,000	0	3,195,000
Historical Society, Prescott	840,200	0	840,200	832,700	0	832,700
Homeopathic and Integrated Medicine Examiners, Board of	0	89,000	89,000	0	90,700	90,700
Housing, Arizona Department of	830,000	323,200	1,153,200	0	322,200	322,200
Industrial Commission of Arizona	0	20,110,900	20,110,900	0	20,001,800	20,001,800
Insurance, Department of	5,878,300	0	5,878,300	5,628,400	0	5,628,400
Judiciary						
Supreme Court	18,812,000	30,313,800	49,125,800	19,870,100	30,446,900	50,317,000
Court of Appeals	14,723,000	0	14,723,000	15,992,400	0	15,992,400
Superior Court	77,183,700	12,203,300	89,387,000	80,714,500	11,958,100	92,672,600
SUBTOTAL - Judiciary	110,718,700	42,517,100	153,235,800	116,577,000	42,405,000	158,982,000
Juvenile Corrections, Department of	19,549,800	16,655,100	36,204,900	22,734,500	17,657,400	40,391,900
Land Department, State	12,815,000	7,250,000	20,065,000	11,733,400	8,048,800	19,782,200
Legislature						
Auditor General	18,688,800	200,000	18,888,800	19,709,600	0	19,709,600
House of Representatives	13,419,100	0	13,419,100	13,835,000	0	13,835,000
Joint Legislative Budget Committee	2,513,800	0	2,513,800	2,504,800	0	2,504,800
Legislative Council	8,278,400	0	8,278,400	8,304,900	0	8,304,900
Senate	9,548,100	0	9,548,100	9,747,200	0	9,747,200
SUBTOTAL - Legislature	52,448,200	200,000	52,648,200	54,101,500	0	54,101,500
Liquor Licenses and Control, Department of	0	3,047,500	3,047,500	0	3,086,000	3,086,000
Lottery Commission, Arizona State	0	116,778,600	116,778,600	0	125,298,200	125,298,200
Massage Therapy, Board of	0	466,100	466,100	0	460,900	460,900
Medical Board, Arizona	0	7,006,900	7,006,900	0	6,987,100	6,987,100
Mine Inspector, State	1,226,800	112,900	1,339,700	1,255,800	112,900	1,368,700
Naturopathic Physicians Medical Board	0	183,000	183,000	0	187,400	187,400
Navigable Stream Adjudication Commission	125,500	200,000	325,500	127,400	200,000	327,400
Nursing, State Board of	0	4,860,500	4,860,500	0	4,738,200	4,738,200
Nursing Care Institution Administrators Board <u>2/</u>	0	426,500	426,500	0	443,600	443,600
Occupational Therapy Examiners, Board of	0	183,700	183,700	0	190,100	190,100
Opticians, State Board of Dispensing	0	155,700	155,700	0	149,100	149,100
Optometry, State Board of	0	222,200	222,200	0	243,800	243,800
Osteopathic Examiners, Arizona Board of <u>3/</u>	0	913,100	913,100	0	903,500	903,500
Parks Board, Arizona State	0	14,401,500	14,401,500	0	14,771,400	14,771,400
Personnel Board, State	0	378,100	378,100	0	361,000	361,000
Pharmacy, Arizona State Board of	0	2,285,100	2,285,100	0	2,190,000	2,190,000
Physical Therapy, Board of	0	448,000	448,000	0	499,600	499,600
Pioneers' Home, Arizona	0	6,605,600	6,605,600	0	6,684,000	6,684,000
Podiatry Examiners, State Board of	0	149,700	149,700	0	161,900	161,900
Postsecondary Education, Commission for	1,881,800	1,541,100	3,422,900	1,646,800	1,537,200	3,184,000
Private Postsecondary Education, Board for	0	421,000	421,000	0	417,800	417,800
Psychologist Examiners, State Board of	0	480,600	480,600	0	495,000	495,000
Public Safety, Department of	109,614,200	174,648,700	284,262,900	104,241,700	188,320,300	292,562,000
Public Safety Personnel Retirement System	6,000,000	0	6,000,000	7,000,000	0	7,000,000
Radiation Regulatory Agency	787,600	1,646,400	2,434,000	0	0	0
Real Estate Department, State	3,028,000	0	3,028,000	2,911,700	0	2,911,700
Residential Utility Consumer Office	0	1,344,300	1,344,300	0	1,342,600	1,342,600
Respiratory Care Examiners, Board of	0	323,300	323,300	0	314,400	314,400
Retirement System, Arizona State	0	25,167,700	25,167,700	0	25,030,300	25,030,300

	Fiscal Year 2018			Fiscal Year 2019		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Revenue, Department of	31,333,700	46,442,400	77,776,100	31,063,800	47,323,200	78,387,000
School Facilities Board	302,286,600	0	302,286,600	274,700,300	0	274,700,300
Secretary of State	14,690,100	3,695,500	18,385,600	15,568,800	8,823,600	24,392,400
Tax Appeals, State Board of	279,400	0	279,400	280,400	0	280,400
Technical Registration, State Board of	0	2,233,700	2,233,700	0	2,291,700	2,291,700
Tourism, Office of	7,112,000	0	7,112,000	7,112,000	0	7,112,000
Transportation, Department of	50,500	390,679,800	390,730,300	65,000	414,458,300	414,523,300
Treasurer, State	1,205,100	5,379,400	6,584,500	1,205,100	5,429,600	6,634,700
Tribal Relations, Governor's Office on	58,000	0	58,000	60,900	0	60,900
Universities						
Board of Regents	6,909,300	0	6,909,300	6,898,100	0	6,898,100
Arizona State University	320,259,000	685,232,600	1,005,491,600	328,775,800	687,947,600	1,016,723,400
Northern Arizona University	108,612,800	157,431,100	266,043,900	112,095,700	157,620,700	269,716,400
University of Arizona - Main Campus	199,600,900	410,094,700	609,695,600	208,836,400	412,085,600	620,922,000
University of Arizona - Health Sciences Center	69,437,700	49,749,000	119,186,700	68,897,700	49,776,300	118,674,000
SUBTOTAL - Universities	704,819,700	1,302,507,400	2,007,327,100	725,503,700	1,307,430,200	2,032,933,900
Veterans' Services, Department of	6,115,800	35,492,700	41,608,500	6,120,600	35,414,100	41,534,700
Veterinary Medical Examining Board	0	590,000	590,000	0	605,500	605,500
Water Resources, Department of	16,001,900	2,119,600	18,121,500	16,169,800	2,427,100	18,596,900
OPERATING BUDGET SUBTOTAL	\$9,770,881,900	\$3,980,683,800	\$13,751,565,700	\$10,320,733,700	\$4,011,368,000	\$14,332,101,700
Unallocated Adjustments	15,800	4,235,700	4,251,500	183,400	2,060,200	2,243,600
Local HURF Transportation Funding	0	30,000,000	30,000,000	0	0	0
Capital Outlay Projects	5,700,000	366,380,100	372,080,100	4,959,000	439,989,500	444,948,500
Capital Outlay Debt Service	84,115,100	0	84,115,100	84,112,000	0	84,112,000
Phoenix Civic Center Debt Service	22,499,000	0	22,499,000	22,996,300	0	22,996,300
Rio Nuevo District Distribution	14,000,000	0	14,000,000	14,000,000	0	14,000,000
Reversion of FY 2016 Special Election	(2,962,600)	0	(2,962,600)	0	0	0
Reversion of FY 2017 Backlog Privatization	(2,700,000)	0	(2,700,000)	0	0	0
ADOT I-10 Project Reversion (VW Settlement)	(230,000)	0	(230,000)	(12,523,500)	0	(12,523,500)
Administrative Adjustments	100,000,000	0	100,000,000	100,000,000	0	100,000,000
Revertments	(169,988,800)	0	(169,988,800)	(145,000,000)	0	(145,000,000)
GRAND TOTAL	\$9,821,330,400	\$4,381,299,600	\$14,202,630,000	\$10,389,460,900	\$4,453,417,700	\$14,842,878,600

1/ This table summarizes FY 2018 and FY 2019 appropriations from the 1st Special Session and 2nd 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.

SUMMARY OF CAPITAL OUTLAY APPROPRIATIONS
(Capital Outlay Bill and Other Bills with Capital Appropriations) ^{1/}

	FY 2018		FY 2019	
	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)	\$5,700,000	\$2,600,000	^{2/}	\$11,000,000
1275 W. Washington Demolition				1,000,000
Capitol Mall Consolidation Fund				10,000,000
Subtotal - Department of Administration	<u>\$5,700,000</u>	<u>\$2,600,000</u>	<u>\$0</u>	<u>\$22,000,000</u>
Corrections, State Department of				
Building Renewal for Corrections Facilities		\$5,464,300		\$5,464,300
Locking System Replacements at State Prison Facilities		1,450,000		
Subtotal - State Department of Corrections	<u>\$0</u>	<u>\$6,914,300</u>	<u>\$0</u>	<u>\$5,464,300</u>
Emergency and Military Affairs, Department of				
Tucson Readiness Center			\$3,759,000	
Exposition and State Fair Board, AZ				
Capital Improvement Projects		\$1,000,000		\$1,000,000
Game and Fish Department, Arizona				
Building Renewal		\$530,000		\$981,400
Capital Improvements				450,000
Subtotal - Arizona Game and Fish Department	<u>\$0</u>	<u>\$530,000</u>	<u>\$0</u>	<u>\$1,431,400</u>
Lottery Commission, Arizona State				
Building Renewal		\$122,200		\$126,300
Parks Board, Arizona State				
Capital Improvement Projects		\$1,300,000		\$2,000,000
Buckskin Mountain State Park Project				1,500,000
Oracle State Park Project				4,000,000
Rockin' River Ranch State Park Project		4,000,000		
Subtotal - Arizona State Parks Board	<u>\$0</u>	<u>\$5,300,000</u>	<u>\$0</u>	<u>\$7,500,000</u>
Pioneers' Home, Arizona				
Capital Improvements				\$600,000
Public Safety, Department of				
Remove Officer Housing			\$1,200,000	\$800,000
Veterans' Services, Department of				
Flagstaff Veterans' Home Construction				\$4,000,000
Yuma Veterans' Home Construction				4,000,000
Subtotal - Department of Veterans' Services			<u>\$0</u>	<u>\$8,000,000</u>
SUBTOTAL - ADOA BUILDING SYSTEM	<u>\$5,700,000</u>	<u>\$16,466,500</u>	<u>\$4,959,000</u>	<u>\$46,922,000</u>
ARIZONA DEPARTMENT OF TRANSPORTATION BUILDING SYSTEM				
Arizona Department of Transportation				
Building Renewal		\$4,732,300		\$5,492,000
Airport Planning and Development		24,555,300		18,798,500
Highway Construction		315,286,000		363,017,000
Interstate 10 Project Reversion	(\$230,000)		(\$12,523,500)	
De-Icer Storage		1,100,000		
New Equipment Service Shop in Safford		4,000,000		
Capital Improvements to Tempe Impound Storage Yard		240,000		
Keams Canyon Truck Barn/Office				1,790,000
Replace and Repair Spreader Rack Bays				1,720,000
Kingman Materials Test Lab				2,250,000
Local HURF Transportation Funding		30,000,000		
SUBTOTAL - ADOT BUILDING SYSTEM	<u>(\$230,000)</u>	<u>\$379,913,600</u>	<u>(\$12,523,500)</u>	<u>\$393,067,500</u>
GRAND TOTAL - ALL APPROPRIATIONS	<u>\$5,470,000</u>	<u>\$396,380,100</u>	<u>(\$7,564,500)</u>	<u>\$439,989,500</u>
SUMMARY OF CAPITAL APPROPRIATIONS BY SESSION				
Laws 2017, 1st Regular Session	\$5,700,000	\$396,380,100		
Laws 2018, 2nd Regular Session	(\$230,000)		(\$7,564,500)	\$439,989,500

^{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/} Laws 2018, Chapter 277 (FY 2019 Capital Outlay Bill) repealed the \$5,700,000 for building renewal appropriated in FY 2019 by Laws 2017, Chapter 306 (FY 2018 Capital Outlay Bill).

SUMMARY OF ADDITIONAL OPERATING AND STATUTORY APPROPRIATIONS 1/ 2/

GENERAL FUND

	FY 2018	FY 2019
Agriculture, Department of Laws 2017, Ch. 280 (HB 2253) State Veterinarian; Animal Identification; Appropriation	368,000	
AHCCCS Laws 2018, Ch. 1, 1st Special Session (SB 1001) Controlled Substances; Regulation; Appropriation	10,000,000	
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	21,500,000
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>	2,825,000 2,902,300 <u>5,727,300</u>
Corporation Commission Laws 2018, Ch. 333 (SB 1181) Corporation Commission; Railway Safety Inspectors		196,600
Corrections, State Department of Laws 2018, Ch. 215 (SB 1185) Appropriations; Named Claimants	16,600	
Economic Security, Department of Laws 2018, Ch. 334 (SB 1245) Appropriation; SNAP; Benefit Match; Produce		400,000
Education, Department of Laws 2018, Ch. 289 (SB 1444) Schools; American Civics Education Laws 2017, Ch. 284 (SB 1038) Teachers; Professional Development; Pilot Program Laws 2015, 1st Special Session, Ch. 1 (HB 2001) Schools; Base Level; Appropriations Subtotal - Department of Education	300,000 50,000,000 <u>50,300,000</u>	500,000 50,000,000 <u>50,500,000</u>
Emergency and Military Affairs, Department of 26-263 - Military Airport Planning; Appropriation 35-192 - Governor's Emergency Authority Subtotal - Department of Emergency and Military Affairs	90,000 4,000,000 <u>4,090,000</u>	90,000 4,000,000 <u>4,090,000</u>
Environmental Quality, Department of 49-282 - WQARF Priority Site Remediation Laws 2018, Ch. 280 (SB 1525) Environment; Budget Reconciliation; 2018-2019 Laws 2017, Ch. 308 (HB 2541) Environment; Budget Reconciliation; 2017-2018 Subtotal - Department of Environmental Quality	15,000,000 (12,176,400) <u>2,823,600</u>	15,000,000 (15,000,000) <u>0</u>
Financial Institutions, Department of Laws 2017, Ch. 334 (SB 1197) Real Estate Appraisal	675,000	
Forestry and Fire Management, Arizona Department of 37-623 - Wild Land Fire Emergency	3,000,000	3,000,000
Governor, Office of Laws 2016, Ch. 248 (HB 2665) Charter Schools; Preference; Foster Children	1,500,000	
Health Services, Department of Laws 2018, Ch. 215 (SB 1185) Appropriations; Named Claimants	900	
Postsecondary Education, Commission for Laws 2017, Ch. 304 (HB 2545) K-12 Education; Budget Reconciliation; 2017-2018	235,000	
Public Safety Personnel Retirement System 38-810 - EORP Closure	5,000,000	5,000,000
Revenue, Department of Laws 2018, Ch. 215 (SB 1185) Appropriations; Named Claimants	42,400	
Secretary of State Laws 2018, Ch. 2 (SB 1058) Secretary of State; Appropriation; Elections	2,500,000	

	FY 2018	FY 2019
Arizona State University		
15-1671 - University Infrastructure Capital Financing		11,927,400
15-1670 - University Research Infrastructure Financing	13,481,000	13,478,700
Subtotal - Arizona State University	13,481,000	25,406,100
Northern Arizona University		
15-1671 - University Infrastructure Capital Financing		4,520,900
15-1670 - University Research Infrastructure Financing	5,896,500	5,896,200
Subtotal - Northern Arizona University	5,896,500	10,417,100
University of Arizona - Main Campus		
15-1671 - University Infrastructure Capital Financing		10,551,700
15-1670 - University Research Infrastructure Financing	14,249,300	14,251,000
Laws 2017, Ch. 285 (SB 1184) Appropriation; Arizona Geological Survey	941,000	
Subtotal - University of Arizona - Main Campus	15,190,300	24,802,700
Veterans' Services, Department of		
Laws 2018, Ch. 98 (HB 2513) Hyperbaric Oxygen Therapy; Veterans; Fund		25,000
Water Resources, Department of		
Laws 2018, Ch. 330 (SB 1039) Appropriation; Arizona Water Protection Fund		400,000
Laws 2018, Ch. 280 (SB 1525) Environment; Budget Reconciliation; 2018-2019		100,000
Subtotal - Department of Water Resources		500,000
Other		
9-602 - Phoenix Convention Center Financing	22,499,000	22,996,300
42-5031 - Rio Nuevo Multi-Purpose Facility District	14,000,000	14,000,000
GENERAL FUND TOTAL	178,558,900	188,646,100

OTHER FUNDS

	FY 2018	FY 2019
Administration, Arizona Department of		
Laws 2018, Ch. 215 (SB 1185) Appropriations; Named Claimants	22,400	
Agriculture, Department of		
Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments	275,000	275,000
Attorney General - Department of Law		
Laws 2018, Ch. 1, 1st Special Session (SB 1001) Controlled Substances; Regulation; Appropriation	400,600	
County Funding		
Laws 2018, Ch. 342 (SB 1476) County Sheriff; Reentry Planning; Appropriation		500,000
Criminal Justice Commission, Arizona		
Laws 2018, Ch. 278 (SB 1523) Criminal Justice; Budget Reconciliation; 2018-2019		200,000
Laws 2017, Ch. 286 (SB 1278) Felony Pretrial Intervention Programs; Appropriation	2,750,000	
Subtotal - Arizona Criminal Justice Commission	2,750,000	200,000
Deaf and the Blind, Schools for the		
Laws 2018, Ch. 291 (HB 2022) Appropriation; ASDB; Education Program		2,070,000
Economic Security, Department of		
Laws 2018, Ch. 346 (SB 1504) Developmental Disability Rates; Appropriation		1,100,000
Education, Department of		
Laws 2018, Ch. 290 (SB 1505) Native American Code Writers Program		500,000
Emergency and Military Affairs, Department of		
Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments	1,438,400	1,461,600
Environmental Quality, Department of		
Laws 2018, Ch. 280 (SB 1525) Environment; Budget Reconciliation; 2018-2019		13,552,000
Laws 2017, Ch. 308 (HB 2541) Environment; Budget Reconciliation; 2017-2018	10,713,300	
Financial Institutions, Department of		
Laws 2017, Ch. 334 (SB 1197) Real Estate Appraisal	(815,100)	

	<u>FY 2018</u>	<u>FY 2019</u>
Health Services, Department of		
Laws 2018, Ch. 1, 1st Special Session (SB 1001) Controlled Substances; Regulation; Appropriation	400,600	
Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments		789,700
Industrial Commission of Arizona		
Laws 2018, Ch. 215 (SB 1185) Appropriations; Named Claimants	500	
Judiciary - Supreme Court		
Laws 2018, Ch. 312 (HB 2527) Ticket Surcharge; Public Safety Equipment		20,000
Laws 2017, Ch. 303 (HB 2540) Criminal Justice; Budget Reconciliation; 2017-2018	750,000	
Public Safety, Department of		
Laws 2018, Ch. 312 (HB 2527) Ticket Surcharge; Public Safety Equipment		3,053,000
Radiation Regulatory Agency		
Laws 2017, Ch. 43 (SB 1091) Nuclear Emergency Appropriations; Assessments	789,700	
Revenue, Department of		
Laws 2018, Ch. 305 (HB 2416) Appropriation; Study; Prime Contracting Classification		75,000
Transportation, Department of		
Laws 2018, Ch. 215 (SB 1185) Appropriations; Named Claimants	<u>54,200</u>	
OTHER FUNDS TOTAL	<u>16,779,600</u>	<u>23,596,300</u>

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

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

**SUMMARY OF TOTAL SPENDING AUTHORITY BY AGENCY
(APPROPRIATED AND NON-APPROPRIATED FUNDS)
Fiscal Years 2018 and 2019 1/**

	Fiscal Year 2018			Fiscal Year 2019		
	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>	
BUDGET UNITS						
Accountancy, State Board of	\$2,042,200	\$0	\$2,042,200	\$2,037,900	\$0	\$2,037,900
Acupuncture Examiners, Board of	185,500	0	185,500	171,900	0	171,900
Administration, Arizona Department of	213,708,200	1,161,967,800	1,375,676,000	202,877,500	1,212,373,100	1,415,250,600
- Automation Projects Fund	68,061,900	0	68,061,900	28,125,100	0	28,125,100
Administrative Hearings, Office of	870,900	812,600	1,683,500	868,900	812,600	1,681,500
African-American Affairs, Arizona Commission of	125,800	15,000	140,800	127,200	15,000	142,200
Agriculture, Arizona Department of	11,320,500	19,329,500	30,650,000	11,360,200	19,329,500	30,689,700
AHCCCS	2,146,791,500	10,292,990,600	12,439,782,100	2,105,138,000	10,682,560,700	12,787,698,700
Arts, Arizona Commission on the	1,500,000	2,569,000	4,069,000	2,000,000	2,569,000	4,569,000
Athletic Training, Board of	120,600	0	120,600	123,500	0	123,500
Attorney General - Department of Law	73,458,700	68,785,900	142,244,600	74,964,100	68,785,900	143,750,000
Automobile Theft Authority	5,301,400	14,800	5,316,200	5,308,900	14,800	5,323,700
Barbers, Board of	345,800	0	345,800	401,100	0	401,100
Behavioral Health Examiners, Board of	1,777,800	0	1,777,800	1,772,300	0	1,772,300
Charter Schools, State Board for	1,200,600	61,500	1,262,100	1,209,800	61,500	1,271,300
Child Safety, Department of	560,401,100	415,540,800	975,941,900	565,554,400	437,430,200	1,002,984,600
Chiropractic Examiners, State Board of	455,100	0	455,100	429,700	0	429,700
Citizens Clean Elections Commission	0	19,128,700	19,128,700	0	19,128,700	19,128,700
Commerce Authority, Arizona	21,800,000	9,678,300	31,478,300	21,800,000	8,107,300	29,907,300
Community Colleges, Arizona	55,086,500	19,674,400	74,760,900	57,205,500	19,674,400	76,879,900
Constable Ethics Standards and Training Board	0	445,400	445,400	0	445,400	445,400
Contractors, Registrar of	12,268,400	4,666,800	16,935,200	12,300,100	4,666,800	16,966,900
Corporation Commission	27,273,900	825,000	28,098,900	27,780,500	825,000	28,605,500
Corrections, State Department of	1,119,194,600	67,799,500	1,186,994,100	1,153,633,100	67,506,500	1,221,139,600
Cosmetology, Board of	1,864,500	0	1,864,500	1,926,300	0	1,926,300
County Funding	15,650,700	0	15,650,700	21,066,200	0	21,066,200
Criminal Justice Commission, Arizona	9,202,600	11,797,600	21,000,200	7,258,100	11,797,600	19,055,700
Deaf and the Blind, Schools for the	33,810,700	19,735,100	53,545,800	35,267,200	19,722,100	54,989,300
Deaf and the Hard of Hearing, Commission for the	4,622,600	0	4,622,600	4,613,500	0	4,613,500
Dental Examiners, State Board of	1,229,900	0	1,229,900	1,300,500	0	1,300,500
Early Childhood Development and Health Board, Arizona	0	145,322,000	145,322,000	0	143,093,400	143,093,400
Economic Opportunity, Office of	484,100	163,769,700	164,253,800	488,800	161,540,400	162,029,200
Economic Security, Department of	880,218,000	3,213,743,700	4,093,961,700	941,711,800	3,363,599,500	4,305,311,300
Education, State Board of	1,153,600	0	1,153,600	1,146,300	0	1,146,300
Education, Department of	4,481,717,100	1,859,169,100	6,340,886,200	4,995,806,100	1,903,345,200	6,899,151,300
Emergency and Military Affairs, Department of	12,676,700	70,914,700	83,591,400	12,559,800	55,557,100	68,116,900
Environmental Quality, Department of	83,046,000	82,718,800	165,764,800	82,063,500	78,356,500	160,420,000
Equal Opportunity, Governor's Office of	191,900	0	191,900	190,700	0	190,700
Equalization, State Board of	646,400	0	646,400	652,000	0	652,000

	Fiscal Year 2018			Fiscal Year 2019		
	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	963,500	41,000	1,004,500	1,137,000	41,000	1,178,000
Exposition and State Fair Board, Arizona	12,153,300	0	12,153,300	12,549,300	0	12,549,300
Financial Institutions, Department of	5,427,800	1,334,800	6,762,600	5,997,400	889,800	6,887,200
Forestry and Fire Management, Arizona Department of	16,000,500	39,234,800	55,235,300	11,156,700	39,234,800	50,391,500
Funeral Directors and Embalmers, Board of	378,200	0	378,200	443,400	0	443,400
Game and Fish Department, Arizona	44,309,200	75,806,200	120,115,400	42,752,600	75,806,200	118,558,800
Gaming, Department of	17,403,700	1,420,800	18,824,500	17,437,200	1,421,100	18,858,300
Governor, Office of the	8,871,400	29,501,400	38,372,800	8,538,800	29,501,400	38,040,200
Governor's Office of Strategic Planning and Budgeting	2,014,600	0	2,014,600	2,022,100	0	2,022,100
Health Services, Department of	140,677,400	338,034,500	478,711,900	141,134,900	333,192,300	474,327,200
Historical Society, Arizona	3,179,800	1,139,300	4,319,100	3,195,000	1,079,800	4,274,800
Historical Society, Prescott	840,200	1,115,000	1,955,200	832,700	2,860,000	3,692,700
Homeland Security, Arizona Department of	0	20,188,200	20,188,200	0	20,188,200	20,188,200
Homeopathic and Integrated Medicine Examiners, Board of	89,000	0	89,000	90,700	0	90,700
Housing, Arizona Department of	1,153,200	108,832,000	109,985,200	322,200	113,812,900	114,135,100
Industrial Commission of Arizona	20,110,900	21,028,800	41,139,700	20,001,800	21,028,800	41,030,600
Insurance, Department of	5,878,300	32,494,700	38,373,000	5,628,400	32,495,600	38,124,000
Judiciary						
Supreme Court	49,125,800	23,283,100	72,408,900	50,317,000	23,283,100	73,600,100
Court of Appeals	14,723,000	0	14,723,000	15,992,400	0	15,992,400
Superior Court	89,387,000	5,201,200	94,588,200	92,672,600	5,201,200	97,873,800
SUBTOTAL - Judiciary	153,235,800	28,484,300	181,720,100	158,982,000	28,484,300	187,466,300
Juvenile Corrections, Department of	36,204,900	1,172,200	37,377,100	40,391,900	1,172,200	41,564,100
Land Department, State	20,065,000	663,000	20,728,000	19,782,200	663,000	20,445,200
Legislature						
Auditor General	18,888,800	2,040,200	20,929,000	19,709,600	2,040,200	21,749,800
House of Representatives	13,419,100	0	13,419,100	13,835,000	0	13,835,000
Joint Legislative Budget Committee	2,513,800	0	2,513,800	2,504,800	0	2,504,800
Legislative Council	8,278,400	0	8,278,400	8,304,900	0	8,304,900
Senate	9,548,100	0	9,548,100	9,747,200	0	9,747,200
SUBTOTAL - Legislature	52,648,200	2,040,200	54,688,400	54,101,500	2,040,200	56,141,700
Liquor Licenses and Control, Department of	3,047,500	1,262,900	4,310,400	3,086,000	1,262,900	4,348,900
Lottery Commission, Arizona State	116,778,600	673,584,100	790,362,700	125,298,200	699,267,700	824,565,900
Massage Therapy, Board of	466,100	0	466,100	460,900	0	460,900
Medical Board, Arizona	7,006,900	10,000	7,016,900	6,987,100	0	6,987,100
Mine Inspector, State	1,339,700	426,400	1,766,100	1,368,700	426,400	1,795,100
Naturopathic Physicians Medical Board	183,000	0	183,000	187,400	0	187,400
Navigable Stream Adjudication Commission	325,500	0	325,500	327,400	0	327,400
Nursing, State Board of	4,860,500	518,600	5,379,100	4,738,200	518,600	5,256,800
Nursing Care Institution Administrators Board <u>3/</u>	426,500	0	426,500	443,600	0	443,600
Occupational Therapy Examiners, Board of	183,700	0	183,700	190,100	0	190,100
Opticians, State Board of Dispensing	155,700	0	155,700	149,100	0	149,100
Optometry, State Board of	222,200	0	222,200	243,800	0	243,800
Osteopathic Examiners, Arizona Board of <u>4/</u>	913,100	0	913,100	903,500	0	903,500
Parents Commission on Drug Educ. & Prev., Arizona	0	5,207,800	5,207,800	0	5,207,800	5,207,800
Parks Board, Arizona State	14,401,500	19,705,500	34,107,000	14,771,400	19,455,500	34,226,900

	Fiscal Year 2018			Fiscal Year 2019		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Personnel Board, State	378,100	0	378,100	361,000	0	361,000
Pharmacy, Arizona State Board of	2,285,100	1,263,500	3,548,600	2,190,000	1,263,500	3,453,500
Physical Therapy, Board of	448,000	0	448,000	499,600	0	499,600
Pioneers' Home, Arizona	6,605,600	6,200	6,611,800	6,684,000	6,200	6,690,200
Podiatry Examiners, State Board of	149,700	0	149,700	161,900	0	161,900
Postsecondary Education, Commission for	3,422,900	1,043,400	4,466,300	3,184,000	1,043,400	4,227,400
Power Authority, Arizona	0	25,485,000	25,485,000	0	25,485,000	25,485,000
Private Postsecondary Education, Board for	421,000	304,500	725,500	417,800	304,500	722,300
Psychologist Examiners, State Board of	480,600	0	480,600	495,000	0	495,000
Public Safety, Department of	284,262,900	115,933,200	400,196,100	292,562,000	98,416,500	390,978,500
Public Safety Personnel Retirement System	6,000,000	13,776,100	19,776,100	7,000,000	15,327,600	22,327,600
Radiation Regulatory Agency	2,434,000	233,100	2,667,100	0	0	0
Real Estate Department, State	3,028,000	338,500	3,366,500	2,911,700	338,500	3,250,200
Residential Utility Consumer Office	1,344,300	0	1,344,300	1,342,600	0	1,342,600
Respiratory Care Examiners, Board of	323,300	0	323,300	314,400	0	314,400
Retirement System, Arizona State	25,167,700	16,003,000	41,170,700	25,030,300	15,961,900	40,992,200
Revenue, Department of	77,776,100	998,300	78,774,400	78,387,000	998,300	79,385,300
School Facilities Board	302,286,600	113,039,500	415,326,100	274,700,300	64,121,400	338,821,700
Secretary of State	18,385,600	4,239,500	22,625,100	24,392,400	4,239,500	28,631,900
Tax Appeals, State Board of	279,400	0	279,400	280,400	0	280,400
Technical Registration, State Board of	2,233,700	33,400	2,267,100	2,291,700	33,400	2,325,100
Tourism, Office of	7,112,000	14,650,600	21,762,600	7,112,000	14,650,600	21,762,600
Transportation, Department of	390,730,300	57,949,800	448,680,100	414,523,300	58,249,100	472,772,400
Treasurer, State	6,584,500	4,088,300	10,672,800	6,634,700	4,088,300	10,723,000
Tribal Relations, Governor's Office on	58,000	22,900	80,900	60,900	22,900	83,800
Universities						
Board of Regents	6,909,300	8,527,600	15,436,900	6,898,100	6,527,900	13,426,000
Arizona State University	1,005,491,600	1,962,673,200	2,968,164,800	1,016,723,400	1,985,289,800	3,002,013,200
Northern Arizona University	266,043,900	424,049,200	690,093,100	269,716,400	433,391,600	703,108,000
University of Arizona - Main Campus	609,695,600	1,300,460,100	1,910,155,700	620,922,000	1,345,030,400	1,965,952,400
University of Arizona - Health Sciences Center	119,186,700	509,012,500	628,199,200	118,674,000	526,828,200	645,502,200
SUBTOTAL - Universities	2,007,327,100	4,204,722,600	6,212,049,700	2,032,933,900	4,297,067,900	6,330,001,800
Veterans' Services, Department of	41,608,500	6,062,700	47,671,200	41,534,700	5,695,400	47,230,100
Veterinary Medical Examining Board	590,000	0	590,000	605,500	0	605,500
Water Resources, Department of	18,121,500	8,482,900	26,604,400	18,596,900	8,482,900	27,079,800
OPERATING BUDGET SUBTOTAL	\$13,751,565,700	\$23,643,399,800	\$37,394,965,500	\$14,332,101,700	\$24,327,165,500	\$38,659,267,200
Unallocated Adjustments	4,251,500	0	4,251,500	2,243,600	0	2,243,600
Local HURF Transportation Funding	30,000,000	0	30,000,000	0	0	0
Capital Outlay Projects	372,080,100	1,408,042,400	1,780,122,500	444,948,500	1,351,694,000	1,796,642,500
Capital Outlay Debt Service	84,115,100	0	84,115,100	84,112,000	0	84,112,000
Phoenix Civic Center Debt Service	22,499,000	0	22,499,000	22,996,300	0	22,996,300
Rio Nuevo District Distribution	14,000,000	0	14,000,000	14,000,000	0	14,000,000
Reversion of FY 2016 Special Election	(2,962,600)	0	(2,962,600)	0	0	0
Reversion of FY 2017 Backlog Privatization	(2,700,000)	0	(2,700,000)	0	0	0
ADOT I-10 Project Reversion (Equipment Sales)	(230,000)	0	(230,000)	(12,523,500)	0	(12,523,500)

	Fiscal Year 2018			Fiscal Year 2019		
	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>	
Administrative Adjustments	100,000,000	0	100,000,000	100,000,000	0	100,000,000
Revertments	(169,988,800)	0	(169,988,800)	(145,000,000)	0	(145,000,000)
GRAND TOTAL	<u>\$14,202,630,000</u>	<u>\$25,051,442,200</u>	<u>\$39,254,072,200</u>	<u>\$14,842,878,600</u>	<u>\$25,678,859,500</u>	<u>\$40,521,738,100</u>

1/ This table summarizes FY 2018 and FY 2019 appropriations from the 1st Special and 2nd 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 2018), 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.

STATE PERSONNEL SUMMARY

Full-Time Equivalent Positions by Agency for Fiscal Years 2018 and 2019 1/

BUDGET UNITS	Fiscal Year 2018			Fiscal Year 2019		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Accountancy, State Board of	0.0	14.0	14.0	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	420.9	535.1	114.2	420.9	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	440.9	555.1	114.2	440.9	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	187.1	17.2	204.3	188.1	17.2	205.3
AHCCCS	455.6	685.6	1,141.2	460.6	693.6	1,154.2
AHCCCS - DES Eligibility	564.2	620.9	1,185.1	564.2	620.9	1,185.1
SUBTOTAL - AHCCCS <u>2/</u>	1,019.8	1,306.5	2,326.3	1,024.8	1,314.5	2,339.3
Athletic Training, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Attorney General - Department of Law	218.6	362.1	580.7	218.6	370.1	588.7
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>3/</u>	1,612.9	1,580.2	3,193.1	1,612.9	1,580.2	3,193.1
Chiropractic Examiners, State Board of	0.0	5.0	5.0	0.0	5.0	5.0
Contractors, Registrar of	0.0	105.6	105.6	0.0	105.6	105.6
Corporation Commission	6.0	294.9	300.9	6.0	294.9	300.9
Corrections, State Department of	9,535.0	6.0	9,541.0	9,535.0	21.0	9,556.0
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	298.4	562.2
Deaf and the Hard of Hearing, Commission for the	0.0	16.0	16.0	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	5.0	0.0	5.0	5.0	0.0	5.0
Economic Security, Department of <u>4/</u>	1,443.6	2,845.8	4,289.4	1,400.2	2,923.6	4,323.8
Education, State Board of	6.0	0.0	6.0	6.0	0.0	6.0
Education, Department of	123.5	48.4	171.9	147.5	48.4	195.9
Emergency and Military Affairs, Department of	64.1	5.5	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	0.0	4.0	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	14.5	0.0	14.5
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	27.0	73.1
Forestry and Fire Management, Arizona Department of	88.0	0.0	88.0	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	795.9	269.6	1,065.5	817.9	282.1	1,100.0
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	0.0	3.0	3.0
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	144.6	38.4	183.0	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	410.2	47.1	457.3	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	126.7	3.0	129.7	126.7	3.0	129.7
Legislature						
Auditor General	188.8	0.0	188.8	195.8	0.0	195.8

BUDGET UNITS	Fiscal Year 2018			Fiscal Year 2019		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Joint Legislative Budget Committee	29.0	0.0	29.0	29.0	0.0	29.0
Legislative Council	49.0	0.0	49.0	55.0	0.0	55.0
SUBTOTAL - Legislature	266.8	0.0	266.8	279.8	0.0	279.8
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, Board of	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
Pharmacy, Arizona State Board of	0.0	19.0	19.0	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	695.7	1,250.0	1,945.7	695.7	1,271.0	1,966.7
Radiation Regulatory Agency	16.0	18.5	34.5	0.0	0.0	0.0
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	245.9	245.9
Revenue, Department of	241.4	639.4	880.8	241.4	639.4	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	0.0	4,552.0	4,552.0
Treasurer, State	0.0	31.4	31.4	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						
Regents, Arizona Board of	25.9	0.0	25.9	25.9	0.0	25.9
Arizona State University	2,450.8	5,672.3	8,123.1	2,450.8	5,672.3	8,123.1
Northern Arizona University	858.6	1,457.9	2,316.5	858.6	1,457.9	2,316.5
University of Arizona - Main Campus	2,084.4	3,980.1	6,064.5	2,084.4	3,980.1	6,064.5
University of Arizona - Health Sciences Center	724.8	451.5	1,176.3	724.8	451.5	1,176.3
SUBTOTAL - Universities	6,144.5	11,561.8	17,706.3	6,144.5	11,561.8	17,706.3
Veterans' Services, Department of	116.3	396.0	512.3	116.3	381.0	497.3
Veterinary Medical Examining Board, Arizona State	0.0	6.0	6.0	0.0	6.0	6.0
Water Resources, Department of	133.0	6.0	139.0	133.0	6.0	139.0
TOTAL APPROPRIATED FUNDS	24,625.0	28,523.8	53,148.8	24,609.1	28,657.6	53,266.7

- 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 2018 and FY 2019 can be found in the individual agency pages.
- 2/ Includes 1,257.1 FTE Positions in FY 2018 and 1,265.1 FTE Positions in FY 2019 in the Other Fund FTE Positions columns funded from Federal Medicaid Expenditure Authority.
- 3/ Includes 1,039.1 FTE Positions in FY 2018 and FY 2019 in the Other Fund FTE Positions columns funded from Expenditure Authority.
- 4/ Includes 1,806.7 FTE Positions in FY 2018 and 1,884.4 FTE Positions in FY 2019 in the Other Fund FTE Positions columns funded from the Long Term Care System Fund for Child Support Enforcement Expenditure Authority.

BUDGET UNITS

Arizona State Board of Accountancy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	14.0	14.0
Personal Services	766,300	827,500	827,500
Employee Related Expenditures	299,200	343,800	336,600
Professional and Outside Services	187,800	436,500	436,500
Travel - In State	1,500	5,000	5,000
Travel - Out of State	6,300	11,900	11,900
Other Operating Expenditures	228,500	401,700	404,600
Equipment	32,100	15,800	15,800
AGENCY TOTAL	1,521,700	2,042,200	2,037,900 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Accountancy Fund	1,521,700	2,042,200	2,037,900
SUBTOTAL - Other Appropriated Funds	1,521,700	2,042,200	2,037,900
SUBTOTAL - Appropriated Funds	1,521,700	2,042,200	2,037,900
TOTAL - ALL SOURCES	1,521,700	2,042,200	2,037,900

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 \$2,037,900 and 14 FTE Positions from the Board of Accountancy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(4,300) from the Board of Accountancy Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	98,000	85,200	85,200
Employee Related Expenditures	20,100	32,600	33,000
Professional and Outside Services	200	5,000	5,000
Travel - In State	1,700	3,000	3,000
Travel - Out of State	0	5,000	5,000
Other Operating Expenditures	25,600	41,500	40,700
Equipment	300	0	0
OPERATING SUBTOTAL	145,900	172,300	171,900
SPECIAL LINE ITEMS			
Annual Leave Payout	13,200	13,200	0
AGENCY TOTAL	159,100	185,500	171,900^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Acupuncture Board of Examiners Fund	159,100	185,500	171,900
SUBTOTAL - Other Appropriated Funds	159,100	185,500	171,900
SUBTOTAL - Appropriated Funds	159,100	185,500	171,900
TOTAL - ALL SOURCES	159,100	185,500	171,900

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 Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$171,900 and 1 FTE Position from the Acupuncture Board of Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(10,000) from the Acupuncture Board of Examiners Fund in FY 2019 for the removal of a one-time FY 2018 rulemaking adjustment.

Shared Services Costs

The budget includes an increase of \$1,100 from the Acupuncture Board of Examiners Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$6,200 from the Acupuncture Board of Examiners Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes an increase of \$2,300 from the Acupuncture Board of Examiners Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes no funding from the Acupuncture Board of Examiners Fund in FY 2019 for an annual leave payout for the retiring Executive Director. The previous Executive Director has retired. FY 2019 adjustments are as follows:

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

Remove One-Time Funding

The budget includes a decrease of \$(13,200) from the Acupuncture Board of Examiners Fund in FY 2019 for an annual leave payout. The previous Executive Director has retired.

Other Issues

<i>One-Time Relocation Costs</i>

The agency received a one-time non-lapsing FY 2017 appropriation of \$2,100 for relocation costs. This appropriation is not displayed in the table above.

Arizona Department of Administration

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	535.1	535.1	535.1 ^{1/}
Personal Services	25,958,500	29,680,000	29,938,300
Employee Related Expenditures	8,929,800	11,240,300	10,738,100
Professional and Outside Services	6,996,700	14,169,400	14,174,900
Travel - In State	487,500	386,800	385,600
Travel - Out of State	44,100	96,100	96,100
Other Operating Expenditures	30,438,600	26,547,800	26,012,400
Equipment	4,006,100	9,826,000	9,847,400
OPERATING SUBTOTAL	76,861,300	91,946,400	91,192,800 ^{2/}
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	6,140,600	8,275,600	7,649,900
Bolin Plaza Improvements	0	0	25,300
Financial Services			
Arizona Financial Information System	9,296,400	9,457,500	9,447,700
Named Claimants	3,300	22,400	0
Information Technology Services			
Statewide Information Security and Privacy Controls	872,600	874,300	3,470,900
Information Technology Project Management and Oversight	0	0	1,500,000
Telecommunications Infrastructure	118,700	0	0
Risk Management			
Federal Transfer Payment	3,218,200	15,802,500 ^{3/}	0
Risk Management Administrative Expenses	7,351,400	8,747,200	8,747,200
Risk Management Losses and Premiums	44,618,200	42,530,300	46,178,400
Workers' Compensation Losses and Premiums	28,066,100	31,830,300	31,830,300
Support Services			
Government Transformation Office	1,297,700	2,010,800	1,000,000
Office of Grants and Federal Resources	0	375,900	0
State Surplus Property Sales Agency Proceeds	1,645,400	1,810,000	1,810,000 ^{4/}
Other			
Southwest Defense Contracts	25,000	25,000	25,000 ^{5/}
AGENCY TOTAL	179,514,900	213,708,200	202,877,500 ^{6/}

FUND SOURCES

General Fund	9,844,400	10,365,300	7,939,100
<u>Other Appropriated Funds</u>			
Administration - AFIS II Collections Fund	0	375,900	0
Air Quality Fund	499,600	927,300	927,300 ^{2/}
Arizona Financial Information System Collections Fund	9,296,400	9,457,500	9,447,700
Automation Operations Fund	19,890,800	24,067,000	25,545,500 ^{8/}
Capital Outlay Stabilization Fund	15,316,700	18,164,400	18,136,300
Corrections Fund	423,000	573,600	572,500
Federal Surplus Materials Revolving Fund	34,900	465,700	464,900
Information Technology Fund	2,910,100	2,948,900	5,547,400
State Monument and Memorial Repair Fund	0	0	25,300
Motor Vehicle Pool Revolving Fund	6,906,400	10,154,100	10,162,600 ^{9/}
Personnel Division Fund	12,032,200	12,959,700	12,747,800
Risk Management Revolving Fund	89,598,800	106,763,600	94,569,100

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
Special Employee Health Insurance Trust Fund	4,884,800	5,302,000	5,283,800
Special Services Revolving Fund	412,800	812,300	1,080,100
State Surplus Materials Revolving Fund	2,645,300	2,960,600	2,963,700
State Web Portal Fund	3,433,200	5,551,600	5,548,100
Telecommunications Fund	1,385,500	1,858,700	1,916,300
SUBTOTAL - Other Appropriated Funds	169,670,500	203,342,900	194,938,400
SUBTOTAL - Appropriated Funds	179,514,900	213,708,200	202,877,500
Other Non-Appropriated Funds	1,101,608,400	1,160,281,100	1,210,686,400
Federal Funds	3,572,400	1,686,700	1,686,700
TOTAL - ALL SOURCES	1,284,695,700	1,375,676,000	1,415,250,600

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 \$91,192,800 and 504.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$7,914,100
Air Quality Fund	927,300
Automation Operations Fund	24,045,500
Capital Outlay Stabilization Fund (COSF)	10,486,400
Corrections Fund	572,500
Federal Surplus Materials Revolving Fund	464,900
Information Technology Fund	2,076,500

Motor Vehicle Pool Revolving Fund	10,162,600
Personnel Division Fund	12,747,800
Risk Management Revolving Fund	7,813,200
Special Employee Health Insurance Trust Fund	5,283,800
Special Services Revolving Fund	1,080,100
State Surplus Materials Revolving Fund	1,153,700
State Web Portal Fund	4,548,100
Telecommunications Fund	1,916,300

FY 2019 adjustments are as follows:

AZNet Contract Savings

The budget includes a decrease of \$(45,000) from the General Fund in FY 2019 for savings related to the lower cost for AZNET, which is the private contract the state

- 1/ Includes 31 OF FTE Positions funded from Special Line Items in FY 2019.
- 2/ On or before October 1, 2018, 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 \$2,936,700 in FY 2019 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,936,700 in FY 2019, 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 Public Transportation Service Subsidy shall be used for up to a 50% subsidy of charges payable for public transportation service expenses as provided in A.R.S. § 41-710.01, of nonuniversity state employees in a vehicle emissions control area as defined in A.R.S. § 49-541, of a county with a population of more than 400,000 persons. (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 2019. 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 \$25,545,500 in FY 2019, 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, 2018, the department shall submit a report to 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)

uses to provide phone and internet capabilities for state offices.

Efficiency Savings

The budget includes a decrease of \$(500,000) in FY 2019 from the General Fund for savings related to a fund shift in the State Procurement Office (SPO). SPO will use higher revenues in its non-appropriated Cooperative Purchasing Fund for operating costs.

Central Services Bureau Shared Services

The budget includes an increase of \$186,600 from the Special Services Revolving Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including security, Wi-Fi, and conference rooms.

General Services Division Operating Increase

The budget includes an increase of \$500,000 from the Capital Outlay Stabilization Fund in FY 2019 for increased operating costs in the General Services Division.

Personnel Division Fund Shift

The budget includes a decrease of \$(189,100) from the Personnel Division Fund in FY 2019 for a fund shift to the Governor's Office of Equal Opportunity.

The FY 2019 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 279) as permanent law allows the Governor's Office of Equal Opportunity to use the Personnel Division Fund for operating costs.

Statewide Adjustments

The budget includes a decrease of \$(706,100) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(244,700)
Automation Operations Fund	(21,500)
Capital Outlay Stabilization Fund	(523,600)
Corrections Fund	(1,100)
Federal Surplus Materials Revolving Fund	(800)
Information Technology Fund	1,900
Motor Vehicle Pool Revolving Fund	8,500
Personnel Division Fund	(14,600)
Risk Management Revolving Fund	(30,400)
Special Employee Health Insurance Trust Fund	(18,200)
Special Services Revolving Fund	81,200
State Surplus Materials Revolving Fund	3,100
State Web Portal Fund	(3,500)
Telecommunications Fund	57,600

(Please see the Agency Detail and Allocations section.)

Facilities Management

Utilities

The budget includes \$7,649,900 from the Capital Outlay Stabilization Fund in FY 2019 for Utilities. FY 2019 adjustments are as follows:

Utility Savings

The budget includes decrease of \$(625,700) from the General Fund in FY 2019 for decreased utility costs. This amount eliminates General Fund monies from the Utilities line item.

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

Bolin Plaza Improvements

The budget includes \$25,300 from the State Monument and Memorial Repair Fund in FY 2019 for improvements to Wesley Bolin Plaza. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$25,300 from the State Monument and Memorial Repair Fund in FY 2019 for improvements to Wesley Bolin Plaza.

Financial Services

Arizona Financial Information System

The budget includes \$9,447,700 and 28 FTE Positions from the Arizona Financial Information System Collections Fund in FY 2019 for the Arizona Financial Information System (AFIS). FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,800) from the AFIS Collections Fund in FY 2019 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 2019 for Named Claimants. FY 2019 adjustments are as follows:

One-Time Named Claimants Funding

The budget includes a decrease of \$(22,431.44) in FY 2019 for the elimination of one-time funding of prior year unpaid claims. This amount consists of:

Capital Outlay Stabilization Fund	(4,499.06)
Personnel Division Fund	(8,198.53)
Risk Management Revolving Fund	(9,733.85)

The state must annually settle unpaid claims against received goods and services. 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.

Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2018, Chapter 215 appropriates \$22,431.44 in FY 2018 for prior year unpaid claims. *(See Other Issues for more information.)*

Information Technology Services

Statewide Information Security and Privacy Controls

The budget includes \$3,470,900 and 3 FTE Positions from the Information Technology (IT) Fund in FY 2019 for Statewide Information Security and Privacy Controls. FY 2019 adjustments are as follows:

IT Security Funding

The budget includes an increase of \$2,600,000 from the Information Technology Fund in FY 2019 to pay for Statewide IT Security controls.

The IT Fund receives revenue from a pro-rata charge on agency payroll. To pay additional statewide IT security costs, the FY 2019 Budget Procedures BRB increases the IT pro-rata charge from 0.2% to 0.3%. The FY 2019 budget appropriated funding to agencies to pay the increased charge. *(Please see the Agency Detail and Allocations section for more information.)*

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.)*

Statewide Adjustments

The budget includes a decrease of \$(3,400) from the IT Fund in FY 2019 for statewide adjustments.

Information Technology Project Management and Oversight

The budget includes \$1,500,000 from the Automation Operations Fund FY 2019 for IT Project Management and Oversight. FY 2019 adjustments are as follows:

APF Fund Shift

The budget includes an increase of \$1,500,000 from the Automation Operations Fund to fund Personal Services and Employee Related Expenditures to manage and oversee IT projects statewide. This line item was previously funded in the Automation Projects Fund. This line item funds staffing costs for statewide project management and oversight at the ADOA Arizona Strategic Enterprise Technology Office. A.R.S § 18-104 requires ADOA to approve all IT projects over \$25,000.

Risk Management

Federal Transfer Payment

The budget includes no funding in FY 2019 for one-time payments to the federal government. FY 2019 adjustments are as follows:

Remove One-time Funding

The budget includes a decrease of \$(15,802,500) from the Risk Management Revolving Fund in FY 2019 to eliminate FY 2018 payments to the federal government for disallowed costs and for fund transfers in FY 2017.

Section 99 of the FY 2019 General Appropriation Act included an FY 2018 supplemental appropriation of \$15,802,500 from the Risk Management Revolving Fund for one-time payments to the federal government for disallowed costs and for fund transfers in FY 2017. In addition, the FY 2019 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 2019 for Risk Management Administrative Expenses. This amount is unchanged from FY 2018.

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 \$46,178,400 from the Risk Management Revolving Fund in FY 2019 for Risk Management Losses and Premiums. FY 2019 adjustments are as follows:

Claims Related Expenditures

The budget includes an increase of \$3,648,100 from the Risk Management Revolving Fund in FY 2019 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 2019 for Workers' Compensation Losses and Premiums. This amount is unchanged from FY 2018.

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

Support Services

Government Transformation Office

The budget includes \$1,000,000 from the State Web Portal Fund in FY 2019 for the Government Transformation Office (GTO). FY 2019 adjustments are as follows:

GTO Self-Funding

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2019 for the removal of funding for additional GTO resources. The budget continues funding from the State Web Portal Fund which was previously labeled as one-time. ADOA plans to create a self-funding mechanism for the office by charging state agencies for consulting services.

Statewide Adjustments

The budget includes a decrease of \$(10,800) from the General Fund in FY 2019 for statewide adjustments.

The GTO assists state agencies in designing and implementing process improvements.

Office of Grants and Federal Resources

The budget includes no funding in FY 2019 for the Office of Grants and Federal Resources. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(375,900) from the Arizona Financial Information System II Collections Fund in FY 2019 for the removal of one-time funding 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 Agency Proceeds

The budget includes \$1,810,000 from the State Surplus Materials Revolving Fund in FY 2019 for State Surplus Property Sales Agency Proceeds. This amount is unchanged from FY 2018.

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 2019 for Southwest Defense Contracts. This amount is unchanged from FY 2018.

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

Other Issues

This section includes information on the following topics:

- FY 2018 Supplemental
- Fund Transfers
- Additional Legislation
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayment
- One-time Relocation Costs

FY 2018 Supplemental

Laws 2018, Chapter 215 provides \$136,926.96 in FY 2018 supplemental funding to various agencies for Named Claimants. This amount consists of:

	Claim Amount
General Fund	
Department of Corrections	\$ 16,574.93
Department of Health Services	900.00
Department of Revenue	42,390.67

Other Appropriated Funds

Department of Administration	
Capital Outlay Stabilization Fund	4,499.06
Personnel Division Fund	8,198.53
Risk Management Revolving Fund	9,733.85
Industrial Commission	
Administrative Fund	440.00
Department of Transportation	
State Highway Fund	<u>54,189.92</u>
TOTAL	\$136,926.96

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

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Air Quality Fund	\$188,000	\$0
ERE/Benefits Administration Fund	0	2,500,000
AFIS II Collections Fund	0	772,300
Motor Vehicle Pool Revolving Fund	0	255,500

Additional Legislation

Capitol Mall Consolidation Fund

The FY 2019 Budget Procedures BRB establishes the Capitol Mall Consolidation Fund. The fund is administered by ADOA and is used for the renovation and repair of state-owned buildings. As session law, the bill directs the sale proceeds from the properties at 2910 N 44th Street in Phoenix, 2163 Vickey Street in Flagstaff, and the northeast corner of South Horne Street and East Baseline Road in Mesa. *(Please see the Capital section for more information.)*

In addition, the bill repeals the Capitol Mall Commission and delegates its authority to ADOA. The commission was responsible for oversight and approval of capital projects at the Capitol Mall.

Retirement System Reporting

The FY 2019 Budget Procedures BRB requires ADOA to report on the 3 salary tiers of state employees in the Public Safety and Correction Officer Retirement systems on or before October 1 of each year. *(Please see the Consolidated Retirement Report section for more information.)*

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 \$820.4 million and ongoing expenditures of \$941.7 million *(see Table 1)*. 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.

Table 1

Health Insurance Trust Fund			
Balance Sheet			
(\$ in millions)			
	Actual FY 2017	Estimated FY 2018	Estimated FY 2019
Beginning Balance	\$ 314.6	\$ 152.8	\$136.8
Baseline Receipts	\$ 807.6	\$ 820.4	\$829.1
1/18 Employee Premium Increase	0.0	7.0	14.4
Employer One-Time Increase	<u>0.0</u>	<u>76.4</u>	<u>30.0</u>
Net Revenues	\$1,122.2	\$1,056.6	\$1,010.3
Baseline Expenses	\$ 890.5	\$ 941.7	\$991.2
1/18 Plan Revisions	0.0	(21.9)	(43.8)
Transfer	<u>78.9</u>	<u>0.0</u>	<u>0.0</u>
Net Expenses	\$ 969.4	\$ 919.8	\$947.4
Structural Balance	(82.9)	(92.4)	(103.9)
Ending Cash Balance	\$ 152.8	\$ 136.8	\$ 62.9

To further reduce costs, ADOA proposed changes to employee premiums and copays beginning in Plan Year 2018 (January 2018-December 2018). These changes increased premium revenue by \$7.0 million and reduced expenditures by \$(21.9) million in FY 2018. At its September 2017 meeting, the JLBC gave an unfavorable review of ADOA's proposed changes. However, ADOA proceeded with the changes as proposed.

The budget removes the FY 2018 one-time employer premium and replaces it with a new one-time employer premium increase equal to 40% of the FY 2018 increase statewide. The FY 2019 budget includes \$10 million from the General Fund and \$10 million from Other Funds for the one-time employer premium increase. These monies are allocated to individual agency budgets. (Please see the *Agency Detail and Allocations* section for more information.) With these changes, HITF has a projected structural balance of \$(103.9) million in FY 2019 and an ending cash balance of \$62.9 million.

As a self-insured fund, the state assumes the direct risk for payment of claims and should therefore retain a sufficient balance to ensure claims can be paid in the event of fluctuations in cash flow or catastrophic expenses. The recommended reserve is between \$50.0 million to \$100.0 million, equal to approximately 1 month's claim expenses.

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 2017 as well as the estimated amounts for FY 2018 and FY 2019. The FY 2018 figures reflect the deductible policy change implemented in the FY 2018 budget. 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 2019 expenditure estimate,

Table 2

Risk Management Revolving Fund			
(\$ in thousands)			
	Actual FY 2017	Estimated FY 2018	Estimated FY 2019
Beginning Balance	75,144.7	73,177.3	47,468.7
Revenues	<u>104,936.3</u>	<u>100,957.5</u>	<u>100,957.5</u>
Total Funds Available	180,081.0	174,134.8	148,426.2
Expenditures			
ADOA	86,380.6	90,951.4	125,167.0
Federal Repayment	<u>3,218.0</u>	<u>15,802.5</u>	<u>-</u>
ADOA Subtotal	89,598.6	106,753.9	125,167.0
Other Agencies			
DPS	1,228.1	1,314.2	1,314.2
DCS	2,867.6	2,471.2	3,770.0
Attorney General	<u>9,426.9</u>	<u>9,468.6</u>	<u>9,468.6</u>
Other Agencies Subtotal	13,522.6	13,254.0	14,552.8
Other Legislative			
Transfers	0.0	440.0	0.0
Admin Adjustment	<u>3,782.5</u>	<u>6,218.2</u>	<u>0.0</u>
Total Expenditures	106,903.7	126,666.1	139,719.8
Ending Balance	73,177.3	47,468.7	8,706.4
Spending Adjustment ^{1/}	-	-	(30,000.0)
Adjusted Expenditures	<u>106,903.7</u>	<u>126,666.1</u>	<u>109,719.8</u>
Revised Balance	73,177.3	47,468.7	38,706.4

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

which is closer to historical spending levels. Under this adjusted estimate, the FY 2019 ending balance would be \$38.7 million.

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 (expended in FY 2017) and the FY 2018 budget included \$2,471,200 for Department of Child Safety (DCS) litigation expenses. The FY 2019 budget also includes \$3,770,000 for DCS litigation expenses.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government of \$3,218,000 in FY 2017 and \$15,802,500 in FY 2018. *(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 2017

The FY 2018 General Appropriation Act included an FY 2017 supplemental appropriation of \$3,218,200 from the Risk Management Revolving Fund to repay the federal government for restricted uses in FY 2016. This amount consists of:

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

FY 2018

The FY 2019 General Appropriation Act included an FY 2018 supplemental appropriation of \$15,802,500 from the Risk Management Revolving Fund to repay the federal government for restricted uses in FY 2017. This amount consists of:

- \$13,977,700, related to fund transfers in FY 2017. This amount consists of:
 - \$10,495,600, for fund transfers from the Health Insurance Trust Fund
 - \$3,482,100 for fund transfers from 8 ADOA funds for projects funded in the Automation Projects Fund.
- \$1,630,500 related to interest on fund transfers.

- \$194,300 related to excess retained earnings in the IT Fund.

These amounts included payment for restricted uses from FY 2017 but do not include payments owed for restricted uses in FY 2018.

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

<i>One-Time Relocation Costs</i>

This agency received a one-time non-lapsing FY 2017 appropriation of \$18,600 for relocation costs. This appropriation is not displayed in the table above.

Arizona Department of Administration - Automation Projects Fund

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
INDIVIDUAL PROJECTS ^{1/2/3/4/}			
Department of Administration Subaccount ^{5/6/7/8/}			
Full Time Equivalent Positions	15.0	15.0	15.0
AFIS Replacement	4,815,300	0	0
e-Procurement System Replacement	300,000	0	3,000,000
ASET Initiatives			
State Date Center	2,015,200	3,405,100	4,697,000
Security, Privacy, and Risk	2,694,100	7,303,500	0
Enterprise Architecture	533,200	0	0
Project Management	1,873,400	1,500,000	0
E-Government	1,780,500	500,000	500,000
Information Technology Consolidation Assessment	750,000	0	0
HRIS Replacement Feasibility Study/Upgrade	0	500,000	821,900
ASET Initiatives Subtotal	9,646,400	13,208,600	6,018,900
Department of Administration Subtotal	14,761,700	13,208,600	9,018,900
Statewide Board e-Licensing Subaccount ^{5/8/9/}	0	595,500	450,000
Department of Child Safety Subaccount ^{5/6/8/}			
CHILDS Replacement	3,512,300	11,100,000	5,000,000
Department of Corrections ^{2/}			
AIMS Replacement	5,964,700	0	0
Department of Economic Security ^{6/}			
Information Technology Security	112,200	0	0
Department of Education ^{5/6/}			
Education Learning and Accountability System	7,358,200	7,300,000	0
Department of Environmental Quality Subaccount ^{5/8/}			
e-Licensing	3,041,800	3,200,000	3,200,000
Department of Financial Institutions Subaccount ^{8/}			
e-Licensing	0	0	1,400,000
Industrial Commission of Arizona ^{5/}			
Claims Processing System	0	1,017,400	0
Arizona State Lottery Commission ^{5/}			
Information Technology System Upgrade	0	3,497,400	0
Department of Public Safety Subaccount ^{5/8/}			
Arizona Criminal Justice Information System	0	2,343,000	2,806,200
Microwave System Upgrade	0	2,500,000	1,250,000
Department of Public Safety Subtotal	0	4,843,000	4,056,200
Department of Revenue ^{5/}			
Information Technology Infrastructure	0	11,000,000	0
TOTAL - ALL PROJECTS ^{4/10/}	34,750,900	55,761,900	23,125,100

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	34,750,900	55,761,900	0
Department of Administration APF Subaccount	0	0	9,018,900
Department of Child Safety APF Subaccount	0	0	5,000,000
Statewide Board e-Licensing APF Subaccount	0	0	450,000
Department of Environmental Quality APF Subaccount	0	0	3,200,000
Department of Financial Institutions APF Subaccount	0	0	1,400,000
Department of Public Safety APF Subaccount	0	0	4,056,200
SUBTOTAL - Other Appropriated Funds	34,750,900	55,761,900	23,125,100
SUBTOTAL - Appropriated Funds	34,750,900	55,761,900	23,125,100
TOTAL - ALL SOURCES ^{11/}	34,750,900	55,761,900	23,125,100

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

Background

The 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. The FY 2019 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 297) as permanent law

requires the report to include project costs, deliverables timeline for completion and method of procurement.

The FY 2019 Budget Procedures BRB requires ADOA to establish subaccounts for each agency that implements an Information Technology project funded through the APF and prohibits monies from being transferred between agency subaccounts. Previously, all agency projects were funded from the lump sum APF appropriation. The subaccounts provide transparency in the accounting of expenditures for each APF project.

- 1/ General Fund monies are transferred into the Automation Projects Fund to finance certain projects. See *Table 1* 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/ Beginning in FY 2019, APF is divided into subaccounts.
- 3/ Represents expenditures from the APF. The FY 2017 actual column includes expenditures from FY 2015, FY 2016, and FY 2017 appropriations.
- 4/ Total excludes \$3,000,000 appropriated from the APF in FY 2018 to ADE for K-12 Broadband.
- 5/ The amounts appropriated pursuant to this section from the Automation Projects Fund established by A.R.S § 41-714 in FY 2018 are exempt from the provisions of A.R.S § 35-190, relating to lapsing appropriations, until June 30, 2019. (General Appropriation Act footnote)
- 6/ For the funding for projects at the Department of Administration, excluding the e-procurement system replacement project, 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)
- 7/ For the funding for projects at the Department of Administration e-procurement system replacement project and the state Department of Corrections Inmate Information Management System Replacement, any remaining balances on June 30, 2017 in the Automation Projects Fund established by A.R.S § 41-714 are appropriated through FY 2019 for the same purposes as specified in FY 2017. (General Appropriation Act footnote)
- 8/ The amounts appropriated pursuant to this section from the Automation Projects Fund established by A.R.S § 41-714 in FY 2019 are exempt from the provisions of A.R.S § 35-190 relating to lapsing of appropriations until June 30, 2020. (General Appropriation Act footnote)
- 9/ The Department of Administration must receive approval for the Statewide e-Licensing project from the Information Technology Authorization Committee pursuant to A.R.S § 18-121 before requesting review from the Joint Legislative Budget Committee pursuant to A.R.S § 41-714 (General Appropriation Act footnote)
- 10/ 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 implementing projects approved by the Information Technology Authorization Committee established pursuant to A.R.S § 18-121 including the projects' expenditures to date, deliverables, timeline for completion and current status. (General Appropriation Act footnote)
- 11/ The transfers into the Automation Projects Fund established by A.R.S § 41-714 as outlined in this section are not appropriations out of the Automation Projects Fund. Only direct appropriations out of the Automation Projects Fund are appropriations. (General Appropriation Act footnote)

Pursuant to A.R.S. § 18-121, the Information Technology Authorization Committee (ITAC) is required to approve or disapprove all IT projects, that exceed a total cost of \$1,000,000. The FY 2019 Budget Procedures BRB requires ITAC to review IT projects that involve more than one state agency if the collective project costs are expected to be more than \$1,000,000.

In addition, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5,000,000 must receive relevant third-party analysis from an independent contracted vendor before receiving approval from 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.

A FY 2019 General Appropriation Act (Laws 2018, Chapter 276) 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 projects approved by ITAC, including the projects' expenditures to date, deliverables, timeline for completion, and current status. Prior footnotes only required ADOA to report on APF-funded projects.

In addition, the FY 2019 budget extends the lapsing status of FY 2018 APF appropriations through FY 2019. FY 2019 appropriations do not lapse until the end of FY 2020.

Department of Administration Subaccount

e-Procurement System Replacement

The budget includes \$3,000,000 from the ADOA APF Subaccount in FY 2019 for the replacement of the state's e-Procurement system. FY 2019 adjustments are as follows:

Expenditure Alignment

The budget includes an increase of \$3,000,000 from the ADOA APF Subaccount in FY 2019 to complete the replacement of the state's e-procurement system.

The FY 2017 budget appropriated \$12,000,000 from the APF for e-Procurement, which included a transfer of \$3,000,000 from the General Fund and \$9,000,000 from one-time charges to other appropriated and non-appropriated funds to the APF. The FY 2018 budget reduced that appropriation by \$(3,000,000) to \$9,000,000 and reallocated that \$3,000,000 to the Department of

Child Safety (DCS) for the replacement of the Children's Information Library and Data Source (CHILDS) system. In addition, the FY 2017 budget required ADOA to use \$3,100,000 from the unused Arizona Financial Information System (AFIS) project contingency to replace the e-Procurement system. The FY 2018 budget also reallocated this funding to DCS to replace the CHILDS system. *(Please see Department of Child Safety section below for additional information.)*

At the September 2016 JLBC meeting, the Committee favorably reviewed \$300,000 of the allocation for the project's third-party review. In September 2017, the Committee failed to pass a favorable review of ADOA's expenditure plan for the remaining \$8,700,000. ADOA reported that the total project cost is \$12,081,400 including \$10,381,400 to purchase commercial off-the-shelf software, \$1,000,000 to integrate the software with AFIS, and \$700,000 for internal project costs. The project is scheduled to be complete in December 2018.

The FY 2018 budget appropriated any remaining FY 2017 e-Procurement project balances for use in FY 2018. The FY 2019 budget extends the appropriation through FY 2019.

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.

ASET Initiatives

The budget includes \$6,018,900 and 15 FTE Positions from the ADOA APF Subaccount in FY 2019 for ADOA's Arizona Strategic Enterprise Technology (ASET) Office projects. The 15 FTE Positions will assist in managing statewide IT projects. FY 2019 adjustments are as follows:

Expenditure Alignment

The budget includes a decrease of \$(7,189,700) in FY 2019 to align expenditures with ongoing IT projects administered by the ASET Office in ADOA. This amount consists of:

	FY 2019
APF	\$(13,208,600)
ADOA APF Subaccount	6,018,900

The total FY 2019 appropriation of \$6,018,900 will be financed by a transfer from the following funds into the ADOA APF Subaccount:

- \$2,330,000 from the Automation Operations Fund.
- \$3,517,000 from the State Web Portal Fund.
- \$171,900 from the Personnel Division Fund.

The FY 2019 appropriation will fund projects continuing from FY 2018 as well as new projects for FY 2019. The \$6,018,900 consists of the following:

- \$4,697,000 for the State Data Center. This project was funded at \$3,405,100 in FY 2018.
- \$500,000 for expanding agency website capabilities. This project was funded at \$500,000 in FY 2018.
- \$821,900 to upgrade the Human Resources Information System (HRIS). The FY 2018 budget included \$500,000 for a feasibility study to replace HRIS. As a result of the study, ADOA has decided to upgrade the system rather than replace it. In addition, the budget allows ADOA to use any remaining FY 2018 feasibility study funding for the FY 2019 upgrade.

In addition, the budget continues to fund IT project management and security, privacy, and risk projects in the ADOA operating budget. *(Please see the ADOA section for more information.)*

Statewide Board e-Licensing System Subaccount

E-Licensing

The budget includes \$450,000 from the Statewide Board e-Licensing APF Subaccount in FY 2019 to add an additional agency to the new statewide e-Licensing system. FY 2019 adjustments are as follows:

Expenditure Alignment

The budget includes a decrease of \$(145,500) in FY 2019 to align expenditures with the continuation of the project. This amount consists of:

APF	(595,500)
Statewide Board e-Licensing APF Subaccount	450,000

The FY 2019 appropriation of \$450,000 will be financed by a transfer from the Board of Behavioral Health Fund into the Statewide e-Licensing APF Subaccount.

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. The FY 2018 appropriation added 13 agencies to the system. In addition, ADOA has continued to add additional agencies to the licensing system outside of the APF. The FY 2019 appropriation will add the Board of Behavioral Health to

the system. A footnote requires ADOA to receive approval from ITAC for the project prior to requesting review of the JLBC.

Department of Child Safety Subaccount

CHILDS Replacement

The budget includes \$5,000,000 from the DCS APF Subaccount in FY 2019 to replace the CHILDS system. FY 2019 adjustments are as follows:

Expenditure Alignment

The budget includes a decrease of \$(6,100,000) FY 2019 to adjust the funding level for the CHILDS Replacement project. This amount consists of:

APF	(11,100,000)
DCS APF Subaccount	5,000,000

Due to slower-than-expected procurement of the technical integrator for the new Guardian system, DCS had only expended \$9,888,500 of its \$20,681,600 in prior APF appropriations through April 2018. Including the unspent prior year appropriations, which will remain available through FY 2019, DCS will have \$15,793,100 from APF (\$31,586,200 after including federal matching funds) to address project needs through the end of FY 2018 and FY 2019.

The FY 2019 appropriation of \$5,000,000 will be financed by a transfer from the General Fund into the DCS APF Subaccount.

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 new system, called Guardian, 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.

To date, DCS has awarded a contract to a vendor to develop the mobile solution, which allows caseworkers to use a mobile device to interface with the existing CHILDS

system while in the field. The mobile solution development was completed in December 2017, and will eventually interface with Guardian. DCS also completed the configuration of the Guardian platform through which the system modules will be integrated in July 2017 and awarded a contract for the system integrator in April 2018.

DCS currently estimates the total cost to replace the system will be \$86,088,100, which includes the cost of state staff and overhead. Including the \$5,000,000 in funding for CHILDS replacement in the FY 2019 budget, the Legislature has authorized a total of \$25,681,600 for the project. With the 50% federal IV-E match, DCS has been appropriated \$51,363,200 of the \$86,088,100 in estimated project costs through FY 2019.

Pursuant to A.R.S. § 18-104, DCS has contracted with a third-party vendor to provide additional oversight for the project. The most recent quarterly review from May 2018 indicated that the project continues to be on track.

Department of Corrections

AIMS Replacement

The budget includes no funding in FY 2019 for the replacement of the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC). This amount is unchanged from FY 2018.

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 appropriated any remaining FY 2017 AIMS project balances for use in FY 2018. The FY 2019 budget extends the appropriation through FY 2019.

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 was 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 2019 for IT Security at the Department of Economic Security (DES). This amount is unchanged from FY 2018.

The FY 2017 budget appropriated \$1,294,700 for IT security projects at DES. The FY 2017 APF appropriation was 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 was from the APF and \$121,900 was 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 FY 2018 budget appropriated any remaining FY 2016 and FY 2017 DES project balances for the same purpose in FY 2018, and prohibited the monies from being used for an assessment to replace any IT system at the department. In addition, it required the department to report to JLBC on the status of the department's IT security system.

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. These funds lapse at the end of FY 2018.

Department of Education

Education Learning and Accountability System

The budget includes no funding in FY 2019 for further development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE). ELAS is intended to allow ADE to collect, compile, maintain, and report student level data for students enrolled in public schools. (See the Department of Education - Education Learning and Accountability System section for more information.) FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(7,300,000) from the General Fund and a corresponding decrease of \$(7,300,000) from the APF to eliminate one-time funding provided for ELAS in FY 2018. The FY 2019 budget provides \$5,300,000 from the General Fund directly to ADE for ELAS in FY 2019 for operating expenses and designates this funding as ongoing.

Department of Environmental Quality Subaccount

e-Licensing

The budget includes \$3,200,000 from the Arizona Department of Environmental Quality (ADEQ) APF Subaccount in FY 2019 for Phase 5 of the e-Licensing project, which will automate 7 additional permitting and compliance processes that are currently conducted with paper. FY 2019 adjustments are as follows:

Continuing Funding

The budget includes a decrease of \$(3,200,000) from the APF and a corresponding increase of \$3,200,000 from the ADEQ APF Subaccount in FY 2019.

The total FY 2019 appropriation of \$3,200,000 will be financed by a transfer from the following funds into the ADEQ APF Subaccount:

- \$1,800,000 from the Permit Administration Fund
- \$1,400,000 from the Underground Storage Tank (UST) Revolving Fund

The FY 2018 appropriation was financed by a \$3,200,000 transfer from the UST Fund.

The FY 2019 Environment BRB allows the department to utilize monies from the UST Fund and the Permit Administration Fund in FY 2019 for e-licensing expenses. Between FY 2014 and FY 2019, a total of \$23,200,000 has been appropriated to automate 71 business processes within ADEQ allowing customers to conduct additional permitting, billing, payment, and data submissions online. Beyond FY 2019, ADEQ estimates this project will cost an additional \$16,300,000 and take an additional 3 years to complete.

Before expending monies for Phase 5 of the project, ADEQ is required to submit an expenditure plan to JLBC for review.

Department of Financial Institutions Subaccount

e-Licensing

The budget includes \$1,400,000 from the Arizona Department of Financial Institutions (DFI) APF Subaccount in FY 2019 to implement an e-Licensing system. FY 2019 adjustments are as follows:

e-Licensing System

The budget includes an increase of \$1,400,000 from the DFI APF Subaccount in FY 2019 to implement an e-Licensing system.

The FY 2019 appropriation of \$1,400,000 will be financed by a transfer from the Receivership Fund into the DFI APF Subaccount.

The DFI system will integrate the department's document management system and allow constituents to apply for and renew licenses online as well as submit complaints. The project also includes \$86,000 in annual ongoing costs.

Industrial Commission of Arizona

Claims Processing System

The budget includes no funding in FY 2019 for a worker's compensation claims processing system upgrade at the Industrial Commission (ICA). FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,017,400) from the APF in FY 2019 to eliminate one-time funding for a claims processing system upgrade at ICA.

The FY 2018 APF appropriation was financed by a transfer from the ICA Administration Fund. This amount partially funds a \$1,578,600 project cost, with the remaining \$561,200 funded from the agency's FY 2017 and FY 2018 operating budgets.

In June 2017, ICA received a favorable review from the JLBC for the project's expenditure plan. 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 Upgrade

The budget includes no funding in FY 2019 to replace the IT system at the Arizona State Lottery Commission. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(3,497,400) from the APF in FY 2019 to eliminate one-time funding to replace the commission's IT system.

The FY 2018 APF appropriation was financed by a transfer from the State Lottery Fund.

The commission received JLBC review of \$2,900,000 of the FY 2018 appropriation at the September 2017 meeting. Monies will be used to replace the Lottery's outdated mainframe system with new hardware and more modern Customer Relationship Management System. The project is expected to be completed by December 2018.

The commission received JLBC review of \$597,400 of their FY 2018 appropriation at the April 2018 meeting. Monies will be used to migrate servers to a cloud environment and to the state's third-party data center and to purchase new computer hardware and video conferencing equipment.

Department of Public Safety Subaccount

Arizona Criminal Justice Information System

The budget includes \$2,806,200 from the Department of Public Safety (DPS) APF Subaccount in FY 2019 for upgrades to the Arizona Criminal Justice Information System (ACJIS). FY 2019 adjustments are as follows:

Expenditure Alignment

The budget includes an increase of \$463,200 in FY 2019 for upgrades to ACJIS. This amount consists of:

APF	(2,343,000)
DPS APF Subaccount	2,806,200

The FY 2019 appropriation of \$2,806,200 will be financed by a transfer from the Highway Patrol Fund into the DPS APF Subaccount.

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. These funds will allow DPS to continue 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.

Microwave System Upgrade

The budget includes \$1,250,000 from the DPS APF Subaccount in FY 2019 for upgrades to the statewide Microwave Radio System. FY 2019 adjustments are as follows:

Expenditure Alignment

The budget includes a decrease of \$(1,250,000) in FY 2019 for upgrades to the microwave radio system. This amount consists of:

APF	(2,500,000)
DPS APF Subaccount	1,250,000

The FY 2019 appropriation of \$1,250,000 will be financed by a transfer from the Public Safety Equipment Fund into the DPS APF Subaccount.

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 \$13,700,000 in remaining upgrades to the northern loop.

Department of Revenue

Information Technology Infrastructure

The budget includes no funding in FY 2019 for IT infrastructure at the Department of Revenue (DOR). FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(11,000,000) from the APF in FY 2019 to eliminate one-time funding for upgrades to DOR's infrastructure.

The FY 2018 appropriation was financed by the following transfers to the APF:

- \$4,000,000 from the DOR Administrative Fund.
- \$4,000,000 from the Liability Setoff Program Revolving Fund.

In addition, \$3,000,000 was appropriated from the balance in the APF. At the current time, it is unclear if there is a sufficient balance in the APF for this appropriation.

These monies are being used by DOR to purchase new hardware and consolidate their 3 data centers into a co-located data center vendor. DOR received JLBC review of \$5,500,000 of this appropriation at the June 2017 JLBC meeting and the remaining \$5,500,000 of the appropriation at the December 2017 JLBC meeting. The project is expected to be completed in FY 2018. DOR intends to pay for the \$5,600,000 in yearly ongoing costs from the department's operating budget.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADOA – APF costs are projected to decrease by \$(18.1) million in FY 2020 below FY 2019 and \$(5.0) million in FY 2021 below FY 2020. These estimates are based on continuing \$5.0 million from the General Fund for DCS' CHILDS Replacement Project in FY 2020 to finish the project. No projects are assumed to be funded in FY 2021.

Table 1			
Automation Projects Fund Transfers ^{1/}			
(\$ in thousands)			
	FY 2017	FY 2018	FY 2019
<u>Department of Administration Subaccount</u>			
e-Procurement Automation Charges ^{2/}	9,000.0	^{2/3/}	
Automation Operations Fund	7,420.6	6,703.0	5,330.0
State Web Portal Fund	5,650.0	5,065.6	3,517.0
Information Technology Fund	527.8	500.0	
Risk Management Revolving Fund		440.0	
Personnel Division Fund			171.9
<u>Statewide Board e-Licensing Subaccount</u>			
Various Funds (See FY 2018 Appropriations Report)		595.5	450.0
<u>Department of Corrections</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>Department of Child Safety Subaccount</u>			
General Fund - Direct Appropriation	4,581.6	5,000.0	5,000.0
General Fund - Redirected e-Procurement	3,000.0 ^{3/}		
Redirected AFIS Replacement		^{4/}	

Table 1 (Continued)

Automation Projects Fund Transfers ^{1/}

(\$ in thousands)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Department of Economic Security</u>			
Special Administration Fund	1,294.7		
<u>Department of Education</u>			
General Fund	7,300.0	7,300.0	
<u>Department of Environmental Quality Subaccount</u>			
Underground Storage Tank Revolving Fund		3,200.0	1,400.0
Permit Administration Fund			1,800.0
<u>Department of Financial Institutions Subaccount</u>			
Receivership Fund			1,400.0
<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 Subaccount</u>			
Public Safety Equipment Fund		1,000.0	1,250.0
Concealed Weapons Permit Fund		2,500.0	
Fingerprint Clearance Card Fund		1,343.0	
Highway Patrol Fund			2,806.2
<u>Department of Revenue</u>			
Department of Revenue Administrative Fund		4,000.0	
Liability Setoff Program Revolving Fund ^{5/}		4,000.0	

^{1/} FY 2017 and FY 2018 transfers represent transfers into the APF. FY 2019 transfers represent transfers into each agency APF subaccount pursuant to Laws 2018, Chapter 279, Section 28.

^{2/} The FY 2017 amount consists of charges to eligible state agency funds for the replacement of the state's e-Procurement system.

^{3/} 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.

^{4/} 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.

^{5/} 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.

Office of Administrative Hearings

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	12.0	12.0	12.0
Personal Services	565,000	564,600	564,600
Employee Related Expenditures	195,900	215,500	211,700
Other Operating Expenditures	99,600	90,800	92,600
AGENCY TOTAL	860,500	870,900	868,900 ^{1/}
FUND SOURCES			
General Fund	860,500	870,900	868,900
SUBTOTAL - Appropriated Funds	860,500	870,900	868,900
Other Non-Appropriated Funds	820,600	812,600	812,600
TOTAL - ALL SOURCES	1,681,100	1,683,500	1,681,500

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 \$868,900 and 12 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Service Costs

The budget includes an increase of \$13,300 from the General Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes a decrease of \$(15,300) from the General Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Additional Legislation

Video Service Provider Complaint Fund

Laws 2018, Chapter 331 requires local governments to issue uniform video service provider (VSP) licenses, where video service refers to video programming comparable to broadcast or digital television. Local governments and VSPs may file complaints against one another alleging violations of the uniform VSP license agreement. The Office of Administrative Hearings (OAH) will serve as the adjudicative body for resolution of those complaints.

To fulfill that responsibility, OAH will use the newly-established Video Service Provider Complaint Fund. The fund will earn revenues from fees set by the OAH director and will fund the adjudication of VSP/local government complaints.

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$26,900 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Commission of African-American Affairs

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	83,100	83,100	83,100
Employee Related Expenditures	24,900	24,900	24,900
Professional and Outside Services	300	0	0
Travel - In State	0	3,200	3,200
Other Operating Expenditures	14,600	14,600	16,000
AGENCY TOTAL	122,900	125,800	127,200 ^{1/}
FUND SOURCES			
General Fund	122,900	125,800	127,200
SUBTOTAL - Appropriated Funds	122,900	125,800	127,200
Other Non-Appropriated Funds	7,800	15,000	15,000
TOTAL - ALL SOURCES	130,700	140,800	142,200

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 \$127,200 and 3 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$1,400 from the General Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	196.3	204.3	205.3 ^{1/2/}
Personal Services	5,271,500	5,958,300	6,085,400
Employee Related Expenditures	2,249,400	2,658,400	2,578,400
Professional and Outside Services	405,500	205,000	204,300
Travel - In State	534,700	596,400	589,600
Travel - Out of State	48,900	53,000	52,600
Other Operating Expenditures	1,289,500	1,310,000	1,310,700
Equipment	190,200	24,400	24,200
OPERATING SUBTOTAL	9,989,700	10,805,500	10,845,200
SPECIAL LINE ITEMS			
Agricultural Consulting and Training	128,400	128,500	128,500
Agricultural Employment Relations Board	23,300	23,300	23,300
Animal Damage Control	65,000	65,000	65,000
Nuclear Emergency Management Program	199,900	275,000	275,000 ^{3/4/}
Red Imported Fire Ant Control	23,200	23,200	23,200
AGENCY TOTAL	10,429,500	11,320,500	11,360,200 ^{5/}
FUND SOURCES			
General Fund	9,059,800	9,604,000	9,640,000
<u>Other Appropriated Funds</u>			
Air Quality Fund	1,369,700	1,441,500	1,445,200
Nuclear Emergency Management Fund	0	275,000	275,000
SUBTOTAL - Other Appropriated Funds	1,369,700	1,716,500	1,720,200
SUBTOTAL - Appropriated Funds	10,429,500	11,320,500	11,360,200
Other Non-Appropriated Funds	11,592,100	13,568,400	13,568,400
Federal Funds	5,511,100	5,761,100	5,761,100
TOTAL - ALL SOURCES	27,532,700	30,650,000	30,689,700

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

^{1/} Includes 2.88 OF FTE Positions funded from Special Line Items in FY 2019.

^{2/} Includes 2.88 OF FTE Positions appropriated by Laws 2017, Chapter 43.

^{3/} 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.

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

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

Operating Budget

The budget includes \$10,845,200 and 202.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$9,400,000
Air Quality Fund	1,445,200

FY 2019 adjustments are as follows:

Efficiency Savings

The budget includes a decrease of \$(125,000) from the General Fund in FY 2019 for efficiency savings identified by the department.

Livestock Inspector Salary Increase

The budget includes an increase of \$200,000 from the General Fund in FY 2019 to fund a 22% salary increase for livestock officers and livestock inspectors. The increase will fund an average yearly increase of \$8,300 per livestock officer and \$6,200 per livestock inspector.

Salt River Horse Management

The budget includes an increase of \$10,200 and 1 FTE Position from the General Fund in FY 2019 for the management of the Salt River horses. The budget also continues the FY 2018 supplemental funding amount of \$40,300 in FY 2019 for a total FY 2019 funding amount of \$50,500 from the General Fund.

Laws 2016, Chapter 136 established an intergovernmental agreement (IGA) between the Arizona Department of Agriculture and the United States Forest Service for the implementation of a management plan for the Salt River horses. The IGA took effect midway through FY 2018. Pursuant to the agreement, the U.S. Forest Service will reimburse the department up to \$40,250 in FY 2018 and \$50,500 in FY 2019 for expenses incurred related to the management of the Salt River horses.

Remove One-Time Funding

The budget includes a decrease of \$(61,000) from the General Fund in FY 2019 for the elimination of one-time equipment funded by Laws 2017, Chapter 280.

Statewide Adjustments

The budget includes an increase of \$15,500 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	11,800
Air Quality Fund	3,700

(Please see the Agency Detail and Allocations section.)

Agricultural Consulting and Training

The budget includes \$128,500 from the General Fund in FY 2019 for the Agricultural Consulting and Training line item. This amount is unchanged from FY 2018.

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 2019 for the Agricultural Employment Relations Board line item. This amount is unchanged from FY 2018.

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 2019 for the Animal Damage Control line item. This amount is unchanged from FY 2018.

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

Nuclear Emergency Management Program

The budget includes \$275,012 and 2.88 FTE Positions from the Nuclear Emergency Management Fund (NEMF) in FY 2019 for the Nuclear Emergency Management Program line item. This amount is unchanged from FY 2018.

Laws 2017, Chapter 43 appropriated \$275,012 and 2.88 FTE Positions from the NEMF in FY 2018 and in FY 2019. As a result, these monies do not appear in the 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 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 Department of Health Services (by way of the Radiation Regulatory Agency transfer), 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 Health Services 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 2019 for the Red Imported Fire Ant Control line item. This amount is unchanged from FY 2018.

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

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the Department of Agriculture's General Fund costs are projected to increase by \$750,000 in FY 2020 above FY 2019 and decrease by \$(750,000) in FY 2021 below FY 2020. This estimate is based on appropriations made in Laws 2018, Chapter 287. (Please see the Industrial Hemp Licensing policy issue below for more information.)

FY 2018 Supplemental

The FY 2019 budget includes an FY 2018 supplemental appropriation of \$40,300 from the General Fund for the management of the Salt River horses. (Please see the Salt River Horse Management policy issue for more information.)

Additional Legislation

Fee Use Authority

The FY 2019 Revenue Budget Reconciliation Bill (Laws 2018, Chapter 283) continues fee raising authority and an exemption relating to establishing fees for the Arizona Department of Agriculture in FY 2019, including legislative intent that limits additional revenues to \$357,000.

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 ^{2/}	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.
^{2/} Laws 2017, Chapter 313 transfers all responsibilities and unexpended or unencumbered monies of the Arizona Radiation Regulatory Agency to the Department of Health Services on January 1, 2018.

Industrial Hemp Licensing

Laws 2018, Chapter 287 authorizes the production, manufacturing, and distribution of industrial hemp for commercial commerce by licensed hemp growers. Chapter 287 establishes the Industrial Hemp Trust Fund for the purpose of funding the licensing and regulation of industrial hemp. The fund will receive monies from legislative appropriations and licensing fees.

Chapter 287 appropriates \$500,000 from the General Fund in FY 2020 to the Department of Agriculture for the administrative regulation of industrial hemp. Chapter 287 also appropriates \$250,000 and 3 FTE Positions from the General Fund in FY 2020 to the Department of Agriculture's Plant Services Division for laboratory testing related to the quality regulation of industrial hemp. Chapter 287 delays these appropriations until FY 2020 to allow for rule writing for industrial hemp regulation.

Produce Safety

Laws 2018, Chapter 48 designates the Citrus, Fruit and Vegetable Division of the Arizona Department of Agriculture as the entity responsible for implementing and enforcing the federal Produce Safety Rule which establishes standards for the growing, harvesting, packing, and holding of produce for human consumption. Chapter 48 also establishes the non-appropriated Produce Safety Trust Fund for the purpose of supporting an agricultural produce safety rule enforcement program. The fund will receive monies from legislative appropriations and civil penalty fees for violation of production, harvesting, and packing standards.

Arizona Health Care Cost Containment System

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,326.3	2,326.3	2,339.3
Personal Services	40,049,800	45,187,500	45,723,900
Employee Related Expenditures	16,199,200	18,243,600	18,134,200
Professional and Outside Services	10,367,900	11,741,600	11,741,600
Travel - In State	88,700	98,800	98,800
Travel - Out of State	26,800	30,200	30,200
Other Operating Expenditures	26,080,400	20,998,000	15,196,000
Equipment	820,900	560,600	560,600
OPERATING SUBTOTAL	93,633,700	96,860,300	91,485,300 ^{1/2/}
SPECIAL LINE ITEMS			
Administration			
ADOA Data Center	0	0	19,325,800
DES Eligibility	77,625,400	88,874,500	88,874,500 ^{3/}
Proposition 204 - AHCCCS Administration	15,098,800	12,908,400	13,143,500 ^{4/}
Proposition 204 - DES Eligibility	39,238,700	44,358,700	44,358,700 ^{4/}
Proposition 206 - Network Adequacy Report	0	200,000	0
Medicaid Services			
Traditional Medicaid Services	4,765,329,900	5,057,945,000	5,347,303,600 ^{5/-8/ 16/}
Proposition 204 Services	3,375,959,800	3,571,078,700	3,953,396,600 ^{4/7/8/16/}
Adult Expansion Services	510,785,500	561,810,800	565,675,000 ^{7/8/16/}
Children's Rehabilitative Services	265,070,700	273,060,600	0 ^{16/}
Comprehensive Medical and Dental Program	172,456,000	217,719,100	199,914,500 ^{7/}
KidsCare Services	23,736,900	111,961,100	81,846,900
ALTCS Services	1,418,473,300	1,544,082,800	1,605,757,300 ^{8/-12/}
Behavioral Health Services in Schools	0	0	9,943,700
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	78,680,900	78,846,900	77,646,900 ^{13/}
Supported Housing	5,237,800	5,324,800	5,324,800
Crisis Services	16,332,600	16,391,300	16,391,300
Substance Use Disorder Services Fund Deposit	0	10,000,000	0
Hospital Payments			
Disproportionate Share Payments	7,405,100	5,087,100	5,087,100 ^{14/}
DSH Payments - Voluntary Match	5,060,000	18,920,200	21,705,900 ^{15/16/}
Graduate Medical Education	224,475,700	338,922,100	274,684,900 ^{16/17/}
Rural Hospitals	22,645,800	22,650,000	28,612,400
Safety Net Care Pool	96,756,800	75,000,000	0 ^{16/18/}
Targeted Investments Program	0	20,000,000	70,000,000
AGENCY TOTAL	11,214,003,400	12,172,002,400	12,520,478,700 ^{19/-23/}
FUND SOURCES			
General Fund	1,696,148,600	1,785,264,100	1,777,093,500
Other Appropriated Funds			
Budget Neutrality Compliance Fund	2,672,500	3,655,300	3,756,200
Children's Health Insurance Program Fund	24,779,300	117,688,200	87,572,700
Prescription Drug Rebate Fund - State	113,740,000	145,691,200	148,458,800
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
TPTF Emergency Health Services Account	18,747,200	19,244,300	17,966,100
TTHCF Medically Needy Account	72,042,700	72,998,200	68,040,500

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
SUBTOTAL - Other Appropriated Funds	234,231,900	361,527,400	328,044,500
SUBTOTAL - Appropriated Funds	1,930,380,500	2,146,791,500	2,105,138,000
<u>Expenditure Authority Funds</u>			
County Funds	300,633,300	314,132,800	315,067,700
Delivery System Reform Incentive Payment Fund	0	6,344,400	21,773,100
Federal Medicaid Authority	7,929,709,600	8,649,834,900	8,958,033,000
Hospital Assessment Fund	238,267,200	286,512,600	310,023,300
Nursing Facility Provider Assessment Fund	24,564,600	32,989,400	32,989,400
Political Subdivision Funds	115,294,000	142,126,100	102,023,400
Prescription Drug Rebate Fund - Federal	536,111,500	465,663,000	550,507,200
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	101,521,700	87,000,000	87,000,000
TPTF Proposition 204 Protection Account	37,521,000	40,413,000	37,728,900
SUBTOTAL - Expenditure Authority Funds	9,283,622,900	10,025,210,900	10,415,340,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	11,214,003,400	12,172,002,400	12,520,478,700
Other Non-Appropriated Funds	91,269,200	99,730,500	99,730,500
Federal Funds	112,791,400	168,049,200	167,489,500
TOTAL - ALL SOURCES	11,418,064,000	12,439,782,100	12,787,698,700

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 619.3 GF and 696.8 EA FTE Positions funded from Special Line Items in FY 2019.
- 2/ Of the amount appropriated for the Operating Lump Sum, \$100,000 shall be used for a suicide prevention coordinator to assist school districts and charter schools in suicide prevention efforts. AHCCCS, in consultation with the Arizona Department of Education, shall report to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting on or before September 1, 2019 on the suicide prevention coordinator's accomplishments in FY 2019. (General Appropriation Act footnote)
- 3/ 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)
- 4/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility and Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 5/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2019 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 2019 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/ 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)
- 8/ The above appropriation includes monies for the AHCCCS Administration to increase inpatient and outpatient hospital rates by 2.5% in FY 2019 based on hospital performance on established quality measures. The appropriation is in addition to rate adjustments that would otherwise be actuarially determined for FY 2019. (General Appropriation Act footnote)
- 9/ 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)
- 10/ Pursuant to A.R.S. § 11-292B, the county portion of the FY 2019 nonfederal costs of providing long term care system services is \$268,554,800. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 11/ Any supplemental payments received in excess of \$109,345,000 for nursing facilities that serve Arizona Long Term Care System Medicaid patients in FY 2019, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2019. 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)
- 12/ The above appropriation includes monies for the AHCCCS Administration to increase skilled nursing facility and assisted living facility provider rates by 3% in FY 2019 in addition to rate adjustments that would otherwise be actuarially determined for FY 2019. (General Appropriation Act footnote)

Summary

AHCCCS' FY 2019 General Fund spending decreases by \$(8,170,600), or a (0.5)% decrease from FY 2018. This amount includes:

- \$15,194,600 for Formula Adjustments
- \$(15,410,300) for Integration of Care
- \$(16,592,900) for Policy Issues
- \$8,638,000 for Other Adjustments

AHCCCS' FY 2019 Hospital Assessment spending increases by \$23,510,700, or an 8.2% increase. This increase is primarily due to a shift of tobacco monies for the Proposition 204 population from acute care services to behavioral health services. This shift increases the share of Proposition 204 costs paid by the Hospital Assessment. (See *Policy Issues* section for additional information.)

Below is an overview of FY 2019 formula adjustments, integration of care, policy issues, and other adjustments. *Table 1* summarizes these changes.

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$118,958,700 in FY 2020 above FY 2019 and by \$173,882,300 in FY 2021 above FY 2020. (See the *Other Issues* section for more information.)

Formula Adjustments

FY 2019 Caseload Adjustment

FY 2019 caseload changes are expected to result in a General Fund decrease of \$(10,022,400) in FY 2019. This amount consists of an FY 2018 base adjustment of \$(26,306,300) for lower than budgeted caseload growth in

- 13/ On or before June 30, 2019, 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)
- 14/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2019 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)
- 15/ 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 2019 by the AHCCCS Administration in excess of \$21,705,900 are appropriated to the Administration in FY 2019. 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)
- 16/ 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 and for payments to qualifying providers affiliated with teaching hospitals. The political subdivision portions of the FY 2019 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match, Safety Net Care Pool, Traditional Medicaid Services, Proposition 204 Services, Adult Expansion Services, and Children's Rehabilitative Services line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 17/ Any monies for Graduate Medical Education received in FY 2019, including any federal matching monies, by the AHCCCS Administration in excess of \$274,684,900 are appropriated to the Administration in FY 2019. 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/ Any monies received for the Safety Net Care Pool by the AHCCCS Administration in FY 2019, including any federal matching monies, are appropriated to the Administration in FY 2019. Before the expenditure of these 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)
- 19/ 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)
- 20/ 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)
- 21/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2019 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 implementing 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)
- 22/ On or before July 1, 2019, 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, 2018. (General Appropriation Act footnote)
- 23/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Table 1

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

Formula Adjustments	
FY 2019 Caseload Growth	\$ (10)
FY 2019 2.5% Capitation Rate Increase	35
FY 2019 Federal Match Rate Increase	(12)
Tobacco Tax Collections Decrease	5
Prescription Drug Rebate Fund Increase	(3)
<i>Subtotal</i>	<i>\$ 15</i>
Integration of Care	
Transfer to Department of Economic Security	\$ (15)
American Indian Health Program Integration	(0)
<i>Subtotal</i>	<i>\$ (15)</i>
Policy Issues	
Hospital Assessment Shift	\$ (35)
2.5% Hospital Rate Increase	10
Eliminate County DUC Pool Payment	3
3.0% Skilled Nursing/Assisted Living Increase	3
Proposition 206 Rate Increase	2
Critical Access Hospital Funding Increase	2
Behavioral Health Services in Schools	3
Suicide Prevention Coordinator	0
End Prior Quarter Coverage	(3)
Non-Contracted Inpatient BHS Rate Decrease	(1)
<i>Subtotal</i> ^{1/}	<i>\$ (17)</i>
Other Adjustments	
Restore Health Insurer Fee	\$ 20
Remove One-Time Opioid Special Session Funding	(10)
ADOA Data Center Line Item	0
Transfer to Department of Health Services	(1)
<i>Subtotal</i>	<i>\$ 9</i>
Total Spending Change	\$ (8)

1/ Numbers do not add to total due to rounding.

FY 2018, which is partly offset by an increase of \$16,283,900 for 1.0% caseload growth in FY 2019 for most AHCCCS populations. Caseloads are shown in Table 2.

FY 2019 2.5% Capitation Rate Increase

In comparison to caseload growth rates which vary by population, capitation rate adjustments are assumed to be 2.5% above FY 2018 across all programs. The budget assumes the 2.5% capitation rate increase will result in an increase of \$34,930,400 from the General Fund in FY 2019.

FY 2019 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 2019, the FMAP rates will adjust as follows:

Table 2

JLBC Forecasted Member Months^{1/}

Population^{2/}	June 2017	June 2018	June 2019	'18-'19% Change
Traditional	1,062,524	1,029,836	1,040,268	1.0%
Prop 204 Childless Adults	317,135	318,173	321,355	1.0
Other Proposition 204	194,261	182,919	184,748	1.0
Adult Expansion ^{3/}	82,228	82,639	83,162	1.0
KidsCare	21,050	34,122	34,804	2.0
CMDP	15,874	15,874	16,033	1.0
ALTCS - Elderly & Physically Disabled ^{4/}	29,063	29,644	30,237	2.0
Emergency Services	121,105	116,286	117,449	1.0
Total Member Months	1,843,240	1,809,493	1,828,056	1.0%

1/ The figures represent June 1 estimates.

2/ The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items. (See the Other Issues section for enrollment and funding of the integrated SMI population.)

3/ Parents and Childless Adults 100%-133% of the federal poverty level (FPL).

4/ The ALTCS program funded in AHCCCS. In addition, approximately 32,000 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of May 1, 2018.

- Traditional Medicaid rate will increase to 69.83% (0.1% increase).
- Proposition 204 Childless Adult rate will increase to 92.29% (1.55% increase).
- KidsCare and Child Expansion rates will remain at 100%.
- Adult Expansion rate will decrease to 93.5% (1.0% decrease).

The formula adjustments include a decrease of \$(11,703,500) in General Fund spending to reflect savings from the regular federal rate increase.

Tobacco Tax Collections Decrease

The budget includes a decrease of \$(4,957,700) from tobacco tax revenues and a corresponding \$4,957,700 increase from the General Fund in FY 2019. The decrease is the result of tobacco tax revenues that are projected to fall short of the appropriation in the FY 2018 budget by \$(4,444,500) in FY 2018 and by \$(4,957,700) in FY 2019.

Prescription Drug Rebate Fund Increase

The budget includes an increase of \$2,967,600 from the state portion of the Prescription Drug Rebate Fund (PDRF - State) and a corresponding \$(2,967,600) decrease from the General Fund in FY 2019 for a projected increase in 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 2018 Adjustments

The budget includes a \$46,973,200 supplemental increase in FY 2018, including \$10,000,000 from the General Fund

for a Substance Use Disorder Services Fund deposit pursuant to Laws 2018, 1st Special Session, Chapter 1 and \$36,973,200 from Expenditure Authority. The increase in Expenditure Authority largely funds provider payments under the Targeted Investment Program and the Access to professional Services Initiative. Due to lower-than-budgeted caseloads, the budget also presumes \$(26,306,300) in AHCCCS revertments to the General Fund above the standard level of revertments. (See the *Other Issues section for more information.*)

Integration of Care

Integration of Physical and Behavioral Health Services

Most AHCCCS enrollees currently receive health coverage for physical health services from AHCCCS acute care contracted health plans, while behavioral health services coverage is provided by the Regional Behavioral Health Authorities (RBHAs). To promote further coordination of services, beginning in FY 2019, AHCCCS will contract with "AHCCCS Complete Care" (ACC) health plans for services covering the full spectrum of physical and behavioral health for most populations.

To reflect these new contracts, the budget combines the appropriations for physical health services and behavioral health services in FY 2019 into single line items delineated by the basis for AHCCCS eligibility (i.e. Traditional, Proposition 204, Adult Expansion, CMDP). The RBHAs will continue to cover behavioral health services in FY 2019 for foster children enrolled in CMDP, persons with a serious mental illness (SMI), and the Developmental Disabilities (DD) population served by the Department of Economic Security (DES). Crisis services, state-only funded behavioral health services, and non-Medicaid federal funding will also continue to be administered by the RBHAs.

Children's Rehabilitative Services Integration

AHCCCS also plans to consolidate CRS within the new ACC contracts. As a result, the budget transfers \$66,727,100 from the General Fund (\$222,670,500 Total Funds) from the existing CRS line into the Traditional Medicaid Services line item. In addition, coverage of services related to CRS conditions will be shifted to DES' subcontracted health plan for DD members. The budget therefore also transfers \$(15,212,700) from the General Fund (\$50,390,100 Total Funds) from the AHCCCS budget to DES.

American Indian Health Program Integration

AHCCCS currently pays for acute care services on a fee-for-service basis for American Indian members enrolled in AHCCCS through the American Indian Health Program (AIHP), while behavioral health services are separately

administered by RBHAs. Effective October 1, 2018, American Indian members will have the option of receiving both acute and behavioral health services through the AIHP program, which will result in the transfer of administrative responsibilities for behavioral health services from the RBHAs to AHCCCS.

The budget includes \$347,700 from the General Fund for 12 FTE Positions to carry out administrative functions associated with the delivery of behavioral health services through AIHP. To reflect the reduced administrative responsibilities of the RBHAs, the budget includes General Fund savings of \$(545,300) within the service line items, resulting in a net General Fund savings of \$(197,600).

Policy Issues

Hospital Assessment Shift and Hospital Rate Increase

The budget includes an increase of \$35,154,400 from the Hospital Assessment in FY 2019 and a corresponding decrease of \$(35,154,400) from the General Fund in FY 2019 to shift Proposition 204 tobacco monies from acute services to behavioral health services. The tobacco monies shifted to behavioral health include \$30,154,400 of Tobacco Litigation Settlement monies and \$5,000,000 of Proposition 204 Protection Account monies. Since Proposition 204 state costs are financed by the Hospital Assessment for acute care, shifting tobacco monies to behavioral health reduces General Fund costs and increases Hospital Assessment costs by equivalent amounts.

To offset the costs of the Hospital Assessment cost increase for providers, the budget also includes \$9,853,800 from the General Fund (\$54,503,100 Total Funds) in FY 2019 for a 2.5% increase to inpatient and outpatient hospital rates. An FY 2019 General Appropriation Act footnote stipulates that the rate increase be distributed based on hospital performance on established quality measures.

Long Term Care Rate Increases

The budget includes \$2,727,900 from the General Fund (\$16,193,100 Total Funds) for a 3% rate increase for Skilled Nursing Facilities and Assisted Living Facilities serving clients in the ALTCS Elderly and Physically Disabled (EPD) program. An additional \$174,200 from the General Fund (\$577,000 Total Funds) is allocated to the DES budget to apply the same rate increase for clients in the Developmental Disabilities program.

The budget also includes \$1,946,700 from the General Fund (\$11,562,600 Total Funds) for Proposition 206 rate increases. This amount includes funding to annualize a January 1, 2018 increase in the state minimum wage to

\$10.50 and to fund a January 1, 2019 increase in the wage to \$11.00.

Eliminate County DUC Pool Payment

The budget includes an increase of \$2,646,200 from the General Fund and a corresponding decrease of \$(2,646,200) from County Funds in FY 2019 to eliminate the county contribution to the Disproportionate Uncompensated Care (DUC) pool. While monies in the DUC pool were originally intended for supplemental payments to reimburse hospitals for uncompensated care, for several years the budget has used these monies to offset the General Fund formula costs of the acute care program. (See the *County Contributions* section for the impact by county.)

Critical Access Hospital Funding Increase

The budget includes an increase of \$1,800,000 from the General Fund (\$5,962,400 Total Funds) in FY 2019 to increase supplemental payments to Critical Access Hospitals (CAHs). CAHs are federally designated rural hospitals that generally have less than 25 inpatient beds and are at least 35 miles from the nearest hospital. The increase in funding will bring the total supplemental funding for CAHs from \$10,491,900 to \$16,454,300, or a 57% increase.

Behavioral Health Services in Schools

The budget includes \$3,000,000 from the General Fund (\$9,943,700 Total Funds) in FY 2019 for Behavioral Health Services in schools. These monies are intended to fund behavioral health services at or near public school campuses for students that are Medicaid-eligible.

Suicide Prevention Coordinator

The budget includes an increase of \$100,000 from the General Fund and 1 FTE Position in FY 2019 for a suicide prevention coordinator. An FY 2019 General Appropriation Footnote requires that AHCCCS use this funding for a suicide prevention coordinator to assist school districts and charter schools in suicide prevention efforts. AHCCCS, in consultation with the Arizona Department of Education, is required to report to the Legislature and the Governor on the accomplishments of the coordinator in FY 2019 by September 1, 2019.

End Prior Quarter Coverage

In April 2018, AHCCCS submitted a waiver request to the federal government to terminate prior quarter coverage for AHCCCS enrollees. Prior quarter coverage provides reimbursement for Medicaid covered services received by AHCCCS enrollees in the 3 months prior to their enrollment with AHCCCS. The budget assumes \$(2,511,300) in General Fund savings (\$(10,890,400) Total Funds) from terminating this coverage. Retroactive

coverage for services received in the same month of the application, but before the application date (called "Prior Period" coverage), will continue.

Out-of-Network Behavioral Health Services Rate Decrease

The budget includes a decrease of \$(1,001,800) from the General Fund \$(3,305,700 Total Funds) in FY 2019 to reduce reimbursement to 90% of the AHCCCS fee schedule for behavioral health inpatient facilities that do not have a contract with an AHCCCS health plan. This reduction is consistent with an existing AHCCCS policy in the acute care program that reimburses non-contracted hospitals less than the fee schedule to incentivize providers to develop contracts with AHCCCS health plans.

Other Adjustments

Restore Health Insurer Fee

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 placed a 1-year moratorium on the fee in calendar year (CY) 2017. As a result, the FY 2018 budget did not include funding for reimbursing Medicaid health insurers. The federal government will resume levying the fee in CY 2018, which AHCCCS would reimburse in FY 2019. The budget includes an increase of \$19,957,000 from the General Fund in FY 2019 for reimbursement of the fee.

A federal continuing resolution (P.L. 115-120) imposed an additional one-time moratorium on the fee in CY 2019. As a result, the budget's 3-year spending plan does not include funding for the fee in FY 2020. (See *Other Issues for additional information.*)

Remove Opioid Special Session Funding

The budget includes a decrease of \$(10,000,000) from the General Fund in FY 2019 to remove one-time funding to address the opioid epidemic. Laws 2018, 1st Special Session, Chapter 1 appropriated \$10,000,000 from the General Fund in FY 2018 for deposit in the Substance Use Disorder Services Fund. Monies in the fund are non-lapsing and are to be used for contracted substance use disorder services, with priority for individuals that are ineligible for Medicaid coverage.

In addition to monies appropriated in Chapter 1, AHCCCS and the Department of Health Services may be eligible for

additional federal monies included in the Consolidated Appropriations Act of 2018 (P.L. 115-141) for grants to states to address the opioid epidemic. As a result, the FY 2019 Health Budget Reconciliation Bill (BRB) requires AHCCCS and the Department of Health Services (DHS) to jointly report on how such monies supplement the monies appropriated to AHCCCS by Chapter 1.

ADOA Data Center

The budget creates a new line item for the Arizona Department of Administration (ADOA) Data Center, which funds AHCCCS' costs associated with the agency's use of mainframe computing services administered by ADOA. AHCCCS previously funded these expenses from an ongoing appropriation in the Operating Budget of \$5,877,500 and funded any costs above that amount via transfers from service lines. The budget presumes AHCCCS will have total data center charges of \$19,325,800 in FY 2019, requiring a net transfer of \$13,448,300 from service line items. To make this transfer budget neutral, the budget includes a corresponding reduction of \$(13,448,300) from the appropriation for Traditional Medicaid Services.

Transfer to Department of Health Services

The budget transfers \$1,200,000 in General Fund appropriation from AHCCCS' Non-Medicaid Seriously Mentally Ill line to the DHS in FY 2019. The transfer would address an ongoing funding shortfall for prescription medications for Arizona State Hospital patients. While the budget in FY 2018 and prior years required AHCCCS to transfer this funding to DHS, the FY 2019 budget directly appropriates the funding to DHS in FY 2019. (See the *Other Issues section in DHS narrative for additional information.*)

Operating Budget

The budget includes \$91,485,300 and 1,023.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$28,592,900
Children's Health Insurance Program (CHIP) Fund	5,565,800
Prescription Drug Rebate Fund (PDRF) - State	660,900
Federal Medicaid Authority (FMA)	56,665,700

FY 2019 adjustments are as follows:

American Indian Health Program Administration

The budget includes an increase of \$725,200 and 9 FTE Positions in FY 2019 for administration of the American Indian Health Program. These amounts consist of:

General Fund	250,500
Federal Medicaid Authority	474,700

(See Integration of Care section for additional information.)

Suicide Prevention Coordinator

The budget includes an increase of \$100,000 and 1 FTE Position from the General Fund in FY 2019 for a suicide prevention coordinator. (See *Policy Issues section for additional information.*)

ADOA Data Center Line Item

The budget includes a decrease of \$(5,877,500) in FY 2019 to create a separate line item for the ADOA Data Center. This amount consists of:

General Fund	(1,724,700)
CHIP Fund	(160,000)
Federal Medicaid Authority	(3,992,800)

(See Other Adjustments for additional information.)

Statewide Adjustments

The budget includes a decrease of \$(322,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(103,800)
CHIP Fund	(1,300)
Federal Medicaid Authority	(217,600)

(Please see the Agency Detail and Allocations section.)

Administration

ADOA Data Center

The budget includes \$19,325,800 in FY 2019 for the Arizona Department of Administration (ADOA) Data Center. This amount consists of:

General Fund	5,915,400
CHIP Fund	160,000
Federal Medicaid Authority	13,250,400

FY 2019 adjustments are as follows:

New Line Item

The budget includes an increase of \$19,325,800 in FY 2019 to create a new line item for the ADOA Data Center. This amount consists of:

General Fund	5,915,400
CHIP Fund	160,000
Federal Medicaid Authority	13,250,400

(See Other Adjustments for additional information.)

This line item funds charges paid by AHCCCS to ADOA pursuant to an interagency service agreement through which ADOA provides mainframe computing services to AHCCCS, including storage of medical records for AHCCCS enrollees.

DES Eligibility

The budget includes \$88,874,500 and 885 FTE Positions in FY 2019 for DES Eligibility services. These amounts consist of:

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

These amounts are unchanged from FY 2018.

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

Proposition 204 - AHCCCS Administration

The budget includes \$13,143,500 and 131 FTE Positions in FY 2019 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,205,800
PDRF - State	60,900
Federal Medicaid Authority	8,876,800

FY 2019 adjustments are as follows:

American Indian Health Program Administration

The budget includes an increase of \$281,800 and 3 FTE Positions in FY 2019 for administration of the American Indian Health Program. These amounts consist of:

General Fund	97,200
Federal Medicaid Authority	184,600

(Please see Integration of Care section for additional information.)

Statewide Adjustments

The budget includes a decrease of \$(46,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(15,200)
Federal Medicaid Authority	(31,500)

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

Proposition 204 - DES Eligibility

The budget includes \$44,358,700 and 300.1 FTE Positions in FY 2019 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	16,966,000
Budget Neutrality Compliance Fund (BNCF)	3,756,200
Federal Medicaid Authority	23,636,500

FY 2019 adjustments are as follows:

Statutory Adjustments

The budget includes a decrease of \$(100,900) from the General Fund and a corresponding increase of \$100,900 from the BNCF in FY 2019 to reflect an increase of county contributions in FY 2019 as required by A.R.S. § 11-292. *(See Table 7 for contributions by county.)*

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

Proposition 206 - Network Adequacy Report

The budget includes no funding in FY 2019 for costs of a report on the effects of Proposition 206 on provider network adequacy. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(200,000) from PDRF - State in FY 2019 to remove one-time funding for conducting a study on the effects of Proposition 206 on network adequacy of long term care provider networks.

Background – An FY 2018 General Appropriation Act footnote required AHCCCS to submit a report by 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 found that Proposition 206 added “fiscal stress” to long term care providers, but “has not had a significant impact to date on access to services.”

Medicaid Services

AHCCCS oversees acute care, behavioral health services, and long term care services for Medicaid enrollees. *Chart 1* shows the income eligibility limits for each AHCCCS population in FY 2019. A description of program components can be found in the *Other Issues* section.

Traditional Medicaid Services

The budget includes \$5,347,303,600 in FY 2019 for Traditional Medicaid Services. This amount consists of:

General Fund	1,218,897,300
County Funds	46,512,900
Political Subdivision Funds	10,260,700
PDRF - State	140,158,600
TTHCF - Medically Needy Account	68,040,500
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	514,085,200
Federal Medicaid Authority	3,349,153,700

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$25,647,400 in FY 2019 for formula adjustments. This amount consists of:

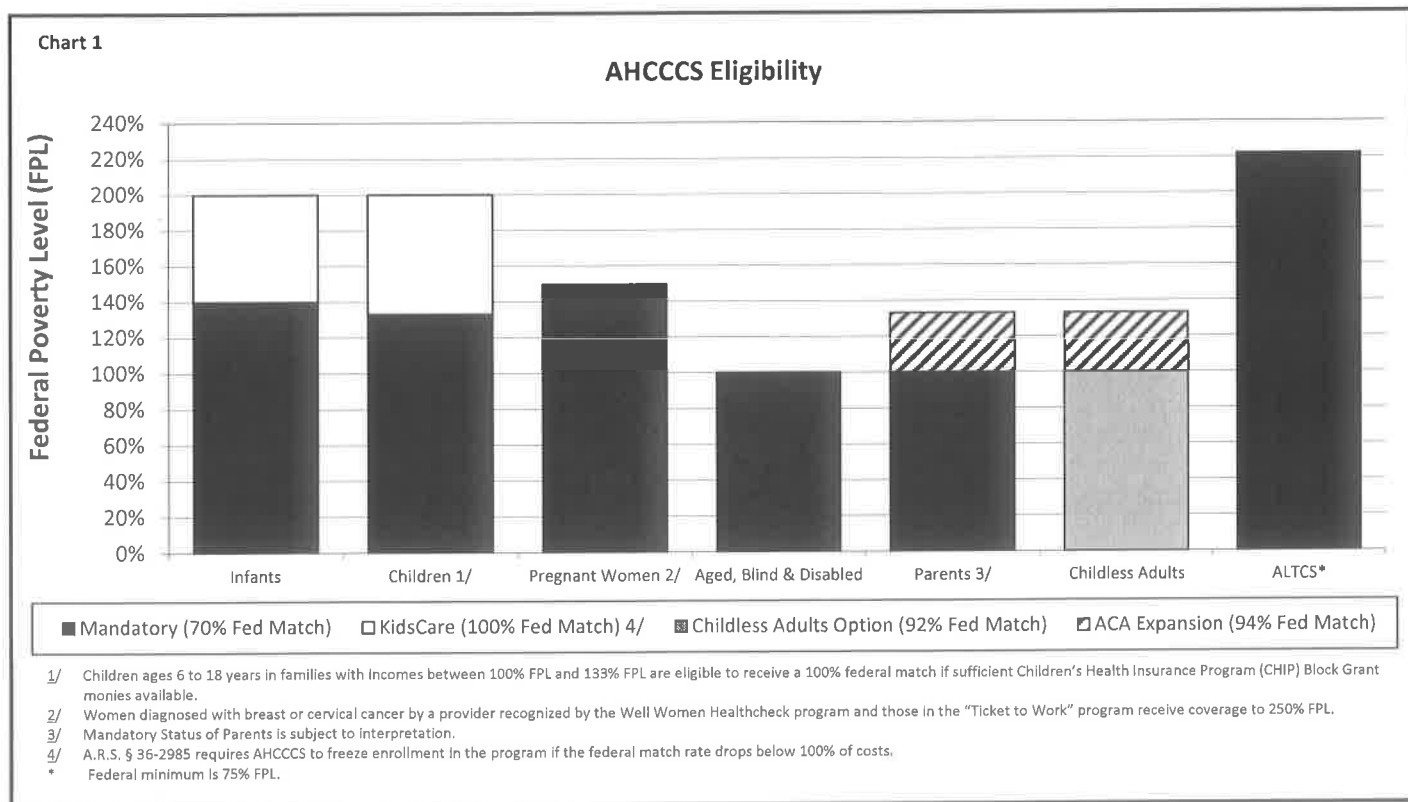
General Fund	1,237,400
County Funds	(300,500)
TTHCF - Medically Needy Account	(4,957,700)
Federal Medicaid Authority	29,668,200

The adjustments include:

- 1.0% enrollment growth.
- An increase in the federal match rate from 69.73% to 69.83%.
- 2.5% capitation rate increase.
- \$(4,957,700) decrease from the TTHCF - Medically Needy Account due to lower-than-expected tobacco tax revenues and a corresponding General Fund increase.
- \$(300,500) 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 an increase of \$2,967,600 from PDRF - State for additional rebate collections and a corresponding decrease of \$(2,967,600) from the General Fund in FY 2019. The budget also includes a \$84,844,200 increase from the PDRF - In Lieu of Federal Funds for additional rebate collections and a corresponding



decrease of \$(84,844,200) from Federal Medicaid Authority in FY 2019.

Shift Acute CMAP Funding

The budget includes a decrease of \$(51,169,600) in FY 2019 to shift acute care funding for the CMAP population to the CMAP line to reflect AHCCCS' plans for integration of care. This amount consists of:

General Fund	(15,490,300)
Federal Medicaid Authority	(35,679,300)

(See the Integration of Care section for additional information.)

Shift CRS Funding

The budget includes an increase of \$222,670,500 in FY 2019 to shift funding for the Children's Rehabilitative Services program to the Traditional line to reflect AHCCCS' plans for integration of care. This amount consists of:

General Fund	66,727,100
Political Subdivision Funds	2,386,700
Federal Medicaid Authority	153,556,700

(See the Integration of Care section for additional information.)

AIHP Administrative Savings

The budget includes a decrease of \$(1,390,100) in FY 2019 for administrative savings associated with the integration of the American Indian Health Program (AIHP). This amount consists of:

General Fund	(404,000)
Federal Medicaid Authority	(986,100)

(See Integration of Care section for additional information.)

Hospital Rate Increase

The budget includes an increase of \$29,563,400 in FY 2019 for a 2.5% rate increase for inpatient and outpatient hospital services. This amount consists of:

General Fund	9,681,700
Federal Medicaid Authority	19,881,700

(See Policy Issues section for additional information.)

Eliminate County DUC Pool Payment

The budget includes an increase of \$2,646,200 from the General Fund and a corresponding decrease of \$(2,646,200) from County Funds in FY 2019 to eliminate the county contribution to the Disproportionate

Uncompensated Care (DUC) pool. *(See Policy Issues section for additional information.)*

End Prior Quarter Coverage

The budget includes a decrease of \$(10,890,400) in FY 2019 to end prior quarter coverage. This amount consists of:

General Fund	(2,511,300)
Federal Medicaid Authority	(8,379,100)

(See Policy Issues section for additional information.)

Reduce Rates for Non-Contracted Inpatient BHS

The budget includes a decrease of \$(3,305,700) in FY 2019 to reduce reimbursement for behavioral health inpatient facilities that do not have a contract with an AHCCCS health plan to 90% of the AHCCCS fee schedule. This amount consists of:

General Fund	(1,001,800)
Federal Medicaid Authority	(2,303,900)

(See Policy Issues section for additional information.)

APSI Payments

The budget includes an increase of \$26,598,500 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	2,849,500
Federal Medicaid Authority	23,749,000

(See the Other Issues section for additional information.)

Restore Health Insurer Fee

The budget includes an increase of \$65,082,900 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

General Fund	18,613,500
Federal Medicaid Authority	46,469,400

(See the Other Adjustments section for additional information.)

ADOA Data Center Line Item

The budget includes a decrease of \$(13,448,300) in FY 2019 to create a separate line item for the ADOA Data Center. This amount consists of:

General Fund	(4,190,700)
Federal Medicaid Authority	(9,257,600)

(See Other Adjustments section for additional information.)

Background – Traditional Medicaid Services funds acute care and behavioral health services of 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").

To reflect AHCCCS' planned integration of care contracts, the FY 2019 budget combines acute care and behavioral health service funding for this population under the Traditional Medicaid Services line and shows the combined funding for FY 2017 and FY 2018. (See the Integration of Care section for additional information.)

Proposition 204 Services

The budget includes \$3,953,396,600 in FY 2019 for Proposition 204 Services. This amount consists of:

General Fund	102,608,900
Hospital Assessment Fund	281,603,200
Political Subdivision Funds	1,931,900
Tobacco Litigation Settlement Fund	87,000,000
TPTF - Emergency Health Services Account	17,966,100
TPTF - Proposition 204 Protection Account	37,728,900
Federal Medicaid Authority	3,424,557,600

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$303,430,400 in FY 2019 for formula adjustments. This amount consists of:

General Fund	27,558,300
Hospital Assessment Fund	(22,809,900)
TPTF - Emergency Health Services Account	(1,278,200)
TPTF - Proposition 204 Protection Account	(2,684,100)
Federal Medicaid Authority	302,644,300

These adjustments include:

- 1.0% enrollment growth.
- An increase in the federal match rate for the non-childless adult population from 69.73% to 69.83%.
- An increase in the federal match rate for the childless adult population from 90.74% to 92.29%.
- 2.5% capitation rate increase.
- \$(2,684,100) decrease from the TPTF - Proposition 204 Protection Account due to lower-than-expected tobacco tax revenues and a corresponding \$2,684,100 Hospital Assessment Fund increase.
- \$(1,278,200) decrease from the Emergency Health Services Account due to lower-than-expected tobacco tax revenues and a corresponding \$1,278,200 Hospital Assessment Fund increase.

AIHP Administrative Savings

The budget includes a decrease of \$(982,800) in FY 2019 for administrative savings associated with the integration of the American Indian Health Program (AIHP). This amount consists of:

General Fund	(135,600)
Federal Medicaid Authority	(847,200)

(See Integration of Care section for additional information.)

Hospital Assessment Shift

The budget includes a decrease of \$(35,154,400) from the General Fund and a corresponding increase of \$35,154,400 from the Hospital Assessment Fund in FY 2019 to shift Proposition 204 tobacco monies from acute care services to behavioral health services. (See the Policy Issues section for additional information.)

Hospital Rate Increase

The budget includes an increase of \$21,208,300 in FY 2019 for a 2.5% rate increase for inpatient and outpatient hospital services. This amount consists of:

Hospital Assessment Fund	2,613,000
Federal Medicaid Authority	18,595,300

(See Policy Issues section for additional information.)

APSI Payments

The budget includes an increase of \$13,763,600 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	447,700
Federal Medicaid Authority	13,315,900

(See the Other Issues section for additional information.)

Restore Health Insurer Fee

The budget includes an increase of \$44,898,400 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

General Fund	778,600
Hospital Assessment Fund	5,921,800
Federal Medicaid Authority	38,198,000

(See the Other Adjustments 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).

To reflect AHCCCS' planned integration of care contracts, the FY 2019 budget combines acute care and behavioral health service funding of this population under the Proposition 204 Services line and shows the combined funding for FY 2017 and FY 2018. Under integration, the hospital assessment will continue to cover the state portion of acute care costs of the program and the General Fund will continue to cover the program's behavioral health state costs. *(See the Integration of Care section for more information.)*

Adult Expansion Services

The budget includes \$565,675,000 in FY 2019 for Adult Expansion Services. This amount consists of:

General Fund	6,461,300
Hospital Assessment Fund	28,420,100
Political Subdivision Funds	123,800
Federal Medicaid Authority	530,669,800

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(7,836,500) in FY 2019 for formula adjustments. This amount consists of:

General Fund	2,182,300
Hospital Assessment Fund	2,094,500
Federal Medicaid Authority	(12,113,300)

These adjustments include:

- 1.0% enrollment growth.
- A decrease in the federal match rate from 94.5% in FY 2018 to 93.5% in FY 2019.
- 2.5% capitation rate increase.

AIHP Administrative Savings

The budget includes a decrease of \$(90,300) in FY 2019 for administrative savings associated with the integration of the American Indian Health Program (AIHP). This amount consists of:

General Fund	(5,700)
Federal Medicaid Authority	(84,600)

(See Integration of Care section for additional information.)

Hospital Rate Increase

The budget includes an increase of \$2,711,400 in FY 2019 for a 2.5% rate increase for inpatient and outpatient hospital services. This amount consists of:

Hospital Assessment Fund	189,800
Federal Medicaid Authority	2,521,600

(See the Policy Issues section for additional information.)

APSI Payments

The budget includes an increase of \$1,826,800 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	46,000
Federal Medicaid Authority	1,780,800

(See the Other Issues section for additional information.)

Restore Health Insurer Fee

The budget includes an increase of \$7,252,800 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

General Fund	15,500
Hospital Assessment Fund	347,100
Federal Medicaid Authority	6,890,200

(See the Other Adjustments 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.

To reflect AHCCCS' planned integration of care contracts, the FY 2019 budget combines acute care and behavioral health service funding of this population under the Adult Expansion Services line and shows the combined funding for FY 2017 and FY 2018. Under integration, the hospital assessment will continue to cover the state portion of acute care costs of the program and the General Fund will continue to cover the program's behavioral health state costs. (See the *Integration of Care* section for additional information.)

Children's Rehabilitative Services

The budget includes no funding in FY 2019 for Children's Rehabilitative Services (CRS). FY 2019 adjustments are as follows:

Transfer DD Clients to DES

The budget includes decrease of \$(50,390,100) in FY 2019 to transfer CRS for children dually enrolled in the ALTCS Developmental Disabilities (DD) program to DES as part of AHCCCS' initiative to integrate care. This amount consists of:

General Fund	(15,212,700)
Federal Medicaid Authority	(35,177,400)

Consolidate into Traditional Medicaid

The budget includes a decrease of \$(222,670,500) in FY 2019 to consolidate non-DD CRS funding within the Traditional Medicaid Services program as part of AHCCCS' initiative to integrate care. This amount consists of:

General Fund	(66,727,100)
Political Subdivision Funds	(2,386,700)
Federal Medicaid Authority	(153,556,700)

(See the *Integration of Care* section for additional information.)

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

Comprehensive Medical and Dental Program

The budget includes \$199,914,500 in FY 2019 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	60,213,900
Federal Medicaid Authority	139,700,600

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(68,974,200) in FY 2019 for formula adjustments. This amount consists of:

General Fund	(20,995,800)
Federal Medicaid Authority	(47,978,400)

These adjustments include:

- Revised FY 2018 enrollment projections that are (8.7)% lower than budgeted amounts.
- 2% enrollment growth.
- Increase in the federal match rate from 69.73% to 69.83%.
- 2.5% capitation rate increase.

Shift Acute CMDP Funding

The budget includes an increase of \$51,169,600 in FY 2019 to shift acute care funding for the CMDP population from the Traditional Medicaid Services line to the CMDP line to reflect AHCCCS' planned integration of care. This amount consists of:

General Fund	15,490,300
Federal Medicaid Authority	35,679,300

(See the *Integration of Care* section for additional information.)

Background – This line item provides coverage to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. The Department of Child Safety (DCS) administers the acute care services of the population while AHCCCS administers the behavioral health services through contracts with Regional Behavioral Health Authorities (RHBAs). Of the CMDP line's budget funding in FY 2019, an estimated 25.2% funds acute care and 74.8% funds behavioral health services.

The FY 2018 budget appropriated acute care funding for the population within the Traditional Medicaid Services line and behavioral health service funding within the Medicaid Behavioral Health - Comprehensive Medical and Dental Program line. To reflect AHCCCS' planned integration of care contracts, the FY 2019 budget consolidates this funding under the Comprehensive Medical and Dental Program line in FY 2019. Funding in FY 2017 and FY 2018 continue to be displayed in separate

lines. (See the *Integration of Care* section for additional information.)

KidsCare Services

The budget includes \$81,846,900 from the Children's Health Insurance Program (CHIP) Fund in FY 2019 for KidsCare Services. FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(30,167,600) from the CHIP Fund in FY 2019 for formula adjustments. The adjustment includes:

- Revised FY 2018 enrollment projections that are (14.1)% lower than budgeted amounts.
- 2.0% enrollment growth.
- 2.5% capitation rate growth.

Restore Health Insurer Fee

The budget includes an increase of \$53,400 from the CHIP Fund in FY 2019 to restore payment of the ACA health insurer fee. (See *Other Adjustments 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.

KidsCare is funded with the federal CHIP Block Grant and state matching dollars. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund KidsCare. Enrollment in the program was frozen in January 2010. Laws 2016, Chapter 112 required AHCCCS to lift the enrollment freeze. AHCCCS resumed enrollment in the program on September 1, 2016.

KidsCare is currently funded at a 100% federal match through rate September 30, 2019. A.R.S. § 36-2985, as amended by the FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309), requires AHCCCS to freeze enrollment if the program’s federal match rate drops below 100% of costs. Federal legislation effectively decreased Arizona's match rate to 90.14% on October 1, 2019 and 78.64% on October 1, 2020 and each year thereafter. As a result, the 3-year spending plan associated with the enacted FY 2019 budget assumes that KidsCare enrollment will be frozen effective October 1,

2019. (See *Long-Term Budget Impacts* section for additional information.)

ALTCS Services

The budget includes \$1,605,757,300 in FY 2019 for ALTCS services. This amount consists of:

General Fund	198,722,900
County Funds	268,554,800
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	1,061,489,800

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$29,629,700 in FY 2019 for formula adjustments. This amount consists of:

General Fund	8,262,100
County Funds	(391,700)
Federal Medicaid Authority	21,759,300

These adjustments include:

- 2.0% enrollment growth.
- An increase in the federal match rate from 69.73% to 69.83%.
- 2.5% capitation rate increase.

Hospital Rate Increase

The budget includes an increase of \$1,020,000 in FY 2019 for a 2.5% rate increase for inpatient and outpatient hospital services. This amount consists of:

General Fund	172,100
County Funds	135,800
Federal Medicaid Authority	712,100

(See the *Policy Issues* section for additional information.)

Skilled Nursing Facility Rate Increase

The budget includes an increase of \$16,193,100 in FY 2019 for a 3.0% rate increase for skilled nursing facilities and assisted living facilities. This amount consists of:

General Fund	2,727,900
County Funds	2,160,800
Federal Medicaid Authority	11,304,400

(See *Policy Issues* section for additional information.)

Proposition 206 Rate Increase

The budget includes an increase of \$11,562,600 in FY 2019 to fund provider rate increases for minimum wage provisions of Proposition 206. This amount consists of:

General Fund	1,946,700
County Funds	1,541,800
Federal Medicaid Authority	8,074,100

(See the Policy Issues section for additional information.)

Restore Health Insurer Fee

The budget includes an increase of \$3,269,100 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

General Fund	549,400
County Funds	434,900
Federal Medicaid Authority	2,284,800

(See the Other Adjustments section for additional information.)

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 2017, AHCCCS estimates that client contributions paid for 4.9% 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 in Schools

The budget includes \$9,943,700 in FY 2019 for Behavioral Health Services in Schools. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,943,700

FY 2019 adjustments are as follows:

Funding Increase

The budget includes an increase of \$9,943,700 in FY 2019 for behavioral health services in schools. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,943,700

Background – This line item funds behavioral health services for at or near public school campuses for students that are Medicaid-eligible.

Non-Medicaid Behavioral Health Services

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$77,646,900 from the General Fund in FY 2019 for Non-Medicaid Seriously Mentally Ill (SMI) Services. FY 2019 adjustments are as follows:

Transfer to Department of Health Services

The budget includes a decrease of \$(1,200,000) from the General Fund in FY 2019 to transfer funding to the Department of Health Services to address an ongoing shortfall in the Arizona State Hospital Fund.

The budget in FY 2018 and prior years included a footnote requiring AHCCCS to transfer this funding to DHS. In FY 2019, the budget replaces this footnote with a direct appropriation of funding to DHS.

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 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 2019 for Supported Housing. This amount is unchanged from FY 2018.

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 2019 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 2018.

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.

Substance Use Disorder Services Fund Deposit

The budget includes no funding in FY 2019 for the Substance Use Disorder Services Fund Deposit. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The budget includes a decrease of \$(10,000,000) from the General Fund in FY 2019 to eliminate one-time funding from FY 2018 for a deposit in the Substance Use Disorder Services Fund. (See the *Other Adjustments* section for additional information.)

Background – Laws 2018, 1st Special Session, Chapter 1 appropriated \$10,000,000 from the General Fund in FY 2018 for deposit in the Substance Use Disorder Services Fund, as created by the act. The Substance Use Disorders Services Fund is administered by AHCCCS. Monies in the fund are non-lapsing and shall be used for contracted substance use disorder services, with priority for individuals that are ineligible for Medicaid coverage.

Hospital Payments

These line items represent supplemental payments made to hospitals and other providers separate from Medicaid service payments.

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.

Delayed Reduction in Federal 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. The Medicare and CHIP Reauthorization Act of 2015 (P.L. 114-10) had previously delayed the DSH cuts until FY 2018. The Bipartisan Budget Act of 2018 (P.L. 115-123), however, further delayed nationwide DSH payment reductions until FY 2020. DSH cuts of \$4.0 billion are now scheduled to begin in FY 2020 and would increase to \$8.0 billion by FY 2021 and each year thereafter.

Increase in Uncompensated Care Payments

In accordance with the prior schedule for DSH reductions, the original FY 2018 budget presumed that Arizona's DSH allocation would fall in FY 2018. As a result of the delayed cuts, the FY 2019 budget retroactively increases Arizona's FY 2018 DSH allotment from \$138,234,500 to \$162,098,400.

In addition, in FY 2019, the state's total DSH payments are estimated to increase by \$2,785,700, from \$162,098,400 in FY 2018 to \$164,884,100 in FY 2019. Of the \$164,884,100 of eligible DSH funding in FY 2019, \$121,925,700 is distributed according to the allocations described below and listed in *Table 3*. The remaining \$42,958,400 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).

Table 3

Disproportionate Share Hospital Payments

Eligible Funding ^{1/}	FY 2018 ^{2/}	FY 2019
MIHS - CPE	\$113,818,500	\$113,818,500
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match ^{3/}	<u>18,920,200</u>	<u>21,705,900</u>
Total Funding	\$162,098,400	\$164,884,100
General Fund		
Retain FF of CPE (via MIHS)	\$ 75,345,400	\$ 75,254,400
Retain FF of CPE (via ASH)	<u>19,901,100</u>	<u>19,878,300</u>
Subtotal - General Fund	\$ 95,246,500	\$ 95,132,700
Other Entities		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>
Total DSH Distributions	\$100,333,600	\$ 100,219,800
Voluntary Match	<u>\$ 18,920,200</u>	<u>\$ 21,705,900</u>
Total Distributions	\$119,253,800	\$ 121,925,700

- 1/ Amounts include state and federal match funding.
- 2/ The FY 2019 Health BRB revises the FY 2018 amounts of eligible funding and distributions in the FY 2018 budget.
- 3/ The FY 2019 General Appropriation Act continues a footnote that appropriates any payments in excess of \$21,705,900 for DSH Voluntary Payments in FY 2019.

The FY 2018 Health BRB reduced eligible funding for MIHS from \$113,818,500 to \$108,874,800 in FY 2018 to reflect scheduled federal reductions in payments. Due to the delay in federal reductions to DSH payments, the FY 2019 Health BRB (Laws 2018, Chapter 284) returns eligible funding for MIHS to \$113,818,500 in FY 2018 and FY 2019. The state will retain Federal Funds of \$75,345,400 in FY 2018 and \$75,254,400 in FY 2019 for deposit to the General Fund. The FY 2019 budget continues the state’s current retention of all Federal Funds drawn down for ASH, which totals \$19,901,100 in FY 2018 and \$19,878,300 in FY 2019. In total, the Federal Funds drawn down for MIHS and ASH add \$95,246,500 to General Fund revenue in FY 2018 and \$95,132,700 in FY 2019.

MIHS Distribution

While the state retains \$75,254,400 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 and is unchanged from FY 2018.

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 \$267,100 from the General Fund and \$617,700 in Federal Medicaid Authority, and is unchanged from FY 2018.

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. The budget includes a \$21,705,900 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$6,553,000 of local voluntary payments and \$15,152,900 in federal expenditure authority. The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) continues a prior year footnote that appropriates any additional payments in excess of \$21,705,900.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2019 for Disproportionate Share Payments. This amount consists of:

General Fund	267,100
Federal Medicaid Authority	4,820,000

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$700 from the General Fund and a corresponding decrease of \$(700) from Federal Medicaid Authority in FY 2019 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 \$267,100 from the General Fund and \$617,700 in federal expenditure authority. In FY 2017, there were 31 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 \$21,705,900 in FY 2019 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	6,553,000
Federal Medicaid Authority	15,152,900

FY 2019 adjustments are as follows:

Increased Funding

The budget includes an increase of \$2,785,700 in FY 2019 for an increase in eligible DSH funding. This amount consists of:

Political Subdivision Funds	856,100
Federal Medicaid Authority	1,929,600

The FY 2018 budget reduced DSH funding for scheduled federal reductions, which resulted in elimination of funding for the DSH Payments - Voluntary Match line. As noted above, the FY 2019 budget assumes that the federal reductions will be delayed indefinitely. The FY 2018 budget includes a footnote that appropriates any additional payments in excess of \$0 in FY 2018. The FY 2019 budget increases funding for the DSH Payments - Voluntary Match line from \$0 to \$18,920,200 in FY 2018.

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. The FY 2019 General Appropriation Act continues a footnote from the FY 2018 budget that appropriates any additional payments above \$21,705,900 in FY 2019. The FY 2019 Health BRB additionally continues provisions from the FY 2018 Health BRB that gives priority to eligible rural hospitals when allocating voluntary match DSH payments, and continues to permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed \$113,818,500 in FY 2019. In FY 2017 there were 8 hospitals that received voluntary match DSH payments.

Graduate Medical Education

The budget includes \$274,684,900 in FY 2019 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	83,154,000
Federal Medicaid Authority	191,530,900

FY 2019 adjustments are as follows:

Decreased Funding

The budget includes a decrease of \$(64,237,200) in FY 2019 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(21,597,600)
Federal Medicaid Authority	(42,639,600)

Although the FY 2018 General Appropriation Act displays a \$265,729,800 appropriation for FY 2018, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to

expend \$338,922,100 in total GME payments in FY 2018, or \$73,192,300 more than appropriated in the FY 2018 budget.

The FY 2018 appropriation has been adjusted to the \$338,922,100 level. Of that amount, \$34,237,300 represents late payments for medical education costs incurred in calendar year 2016. The budget decrease in FY 2019 partly results from 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 2017, 16 hospitals received a total of \$290,197,854 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.

Rural Hospitals

The budget includes \$28,612,400 in FY 2019 for Rural Hospitals (which includes Critical Access Hospitals (CAH)). This amount consists of:

General Fund	8,638,000
Federal Medicaid Authority	19,974,400

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$18,100 from the General Fund and a corresponding decrease of \$(18,100) from Federal Medicaid Authority in FY 2019 due to a change in the federal match.

Increased Critical Access Hospital Funding

The budget includes an increase of \$5,962,400 in FY 2019 for an increase in CAH funding. This amount consists of:

General Fund	1,800,000
Federal Medicaid Authority	4,162,400

The increase in funding will bring the total supplemental funding for CAHs from \$10,491,900 to \$16,454,300, or a

57% increase. (See Policy Issues for additional information.)

Background – This line item includes \$12,158,100 for the Rural Hospital Reimbursement program, which increases inpatient reimbursement rates for qualifying rural hospitals. The remaining \$16,454,300 is for the CAH program, which 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 2018, 20 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from CAH.

Safety Net Care Pool

The budget includes no funding in FY 2019 for the Safety Net Care Pool (SNCP) program. FY 2019 adjustments are as follows:

Decreased Funding

The budget includes a decrease of \$(75,000,000) in FY 2019 to reflect the federal phase-down of the program. This amount consists of:

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

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.

The FY 2018 Health BRB further extends the date PCH may participate in the program to December 31, 2020. The federal government, however, has indicated it plans to end funding for the program after December 31, 2017. The FY 2019 General Appropriation Act continues a prior year footnote that appropriates any additional payments in excess of \$0 in FY 2019.

Targeted Investments Program

The budget includes \$70,000,000 in FY 2019 for the Targeted Investments Program. This amount consists of:

Delivery System Reform	21,773,100
Incentive Payment (DSRIP) Fund	
Federal Medicaid Authority	48,226,900

FY 2019 adjustments are as follows:

Increased Funding

The budget includes an increase of \$50,000,000 in FY 2019 to reflect resources authorized by the federal government for the Targeted Investments Program. This amount consists of:

DSRIP Fund	15,428,700
Federal Medicaid Authority	34,571,300

The FY 2017 Health BRB established the non-appropriated DSRIP Fund for state costs of the program. The budget converts the DSRIP Fund to expenditure authority under the budget structure in FY 2018 and FY 2019.

Background – In January 2017, the Centers for Medicare and Medicaid Services (CMS) approved AHCCCS' request to create a Targeted Investments Program. AHCCCS began using the program in FY 2018 to make incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services.

CMS has authorized up to \$300 million in total funds for the program from FY 2018 through FY 2022. The state portion of the program’s cost is funded from certified public expenditures for existing state-funded programs and voluntary contributions from local governments and public universities.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2018 Supplemental
- Fund Transfers
- Additional Legislation
- Federal Funding for American Indians
- Prescription Drug Rebate Fund
- Waiver
- SMI Funding
- Access to Professional Services Initiative
- 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 \$119.0 million in FY 2020 above FY 2019 and by \$173.9 million in FY 2021 above FY 2020.

These estimates are based on:

- Overall enrollment growth of 2.0% in FY 2020 and FY 2021.
- Capitation rate growth of 3.0% in FY 2020 and FY 2021.
- A decrease in the federal match rate (from 69.83% in FY 2019 to 69.56% in FY 2020 and 69.48% FY 2021).
- An increase in State Prescription Drug Rebate Fund disbursements of \$5.9 million in FY 2020 above FY 2019 and \$9.8 million in FY 2021 above FY 2020, producing equivalent General Fund savings.
- Provider rate increases associated with a Proposition 206 minimum wage hike to \$11.00 on January 1, 2019 and to \$12.00 on January 1, 2020. This is projected to increase General Fund spending by \$2.9 million in FY 2020 above FY 2019 and by \$2.1 million in FY 2021 above FY 2020.
- One-time savings of \$(22.9) million in FY 2020 associated with a one-year moratorium on the ACA Health Insurer Fee
- An increase of \$16.6 million in FY 2020 and \$38.9 million in FY 2021 for a decrease in the federal match rates for KidsCare and Child Expansion populations from 100% in FY 2019 to 92.60% in FY 2020 and 81.51% in FY 2021.

The FY 2018 Health BRB requires AHCCCS to freeze KidsCare enrollment if federal match rate drops below 100% of costs. As a result, the 3-year spending plan associated with the enacted FY 2019 budget assumes KidsCare enrollment is frozen effective October 1, 2019. Under an enrollment freeze, KidsCare membership is projected to decrease from 35,100 in September 2019 to 20,300 by June 2020 and 11,800 by June 2021. The 3-year spending plan includes \$3.7 million in FY 2020 and \$5.0 million in FY 2021 for the state cost of funding frozen enrollment levels in KidsCare. Federal costs would continue to be funded from Arizona's federal allocation of CHIP funding.

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation of \$46,973,200, as shown in Table 4. The supplemental includes 4 components:

- \$10,000,000 from the General Fund from Laws 2018, 1st Special Session, Chapter 1 for a deposit in the Substance Use Disorder Services Fund. (See Substance Use Disorder Services Fund Deposit line item for additional information.)
- \$20,000,000 for payments to providers through the Targeted Investments Program (\$6,344,400 DSRIP Fund, \$13,655,600 Federal Funds). (See the Targeted Investments Program line item for additional information)
- \$8,973,200 in Political Subdivision Funds for payments to providers through the Access to Professional Services Initiative (See the Access to Professional Services Initiative section in Other Issues for additional information.)
- \$8,000,000 from the Tobacco Settlement Litigation Fund as a result of higher-than-anticipated revenues.

The budget also presumes, based on lower-than-budgeted caseload growth in FY 2018, that AHCCCS will expend \$(26,306,300) less from the General Fund than its FY 2018 appropriation. The budget does not, however, adjust AHCCCS' FY 2018 General Fund appropriation to account for these projected savings. Instead, the surplus is presumed to result in a corresponding \$26,306,300 increase in FY 2018 revertments. The actual amount of AHCCCS revertments, however, will depend on how enrollment changes compare to assumed changes in the budget.

<u>General Fund</u>	
Opioid Special Session Funding	\$ 10,000,000
<u>Expenditure Authority</u>	
DSRIP Fund	\$ 6,344,400
Federal Funds	13,655,600
Political Subdivision Funds	8,973,200
Tobacco Settlement Litigation Fund	<u>8,000,000</u>
Total	\$46,973,200

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
Hospital Loan Residency Fund	\$900,000	\$0
PDRF - State	0	52,600,000
IGA/ISA Fund	0	5,900,000

(See the Prescription Drug Rebate Fund section below for additional information.)

Additional Legislation

FY 2019 Health BRB

In addition to the previously mentioned items and items in the *County Contributions* section below, the FY 2019 Health BRB includes the following provisions.

Rates and Services

- As session law, Section 16 continues the FY 2010 risk contingency rate reduction for all managed care organizations by 50% and continues to impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.

Counties

- As session law, Section 15 continues to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, Section 13 continues to require AHCCCS to transfer any excess monies back to the counties by December 31, 2019 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

Hospitals

- As permanent law, Sections 7 and 8 repeal the Hospital Loan Residency Fund. The fund has been inactive since 2017.

Erroneous Payments

- As session law, Section 17 continues 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.

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 session law, Section 18 continues to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 2, 2019 on hospital costs and charges.
- As session law, Section 19 continues to require AHCCCS to report to JLBC on or before January 2, 2019 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.

Federal Funding for American Indians

The federal government provides a higher match rate for certain Medicaid services provided to American Indians.

States may receive 100% federal funding for Medicaid services provided to American Indians if such services are provided by an Indian Health Services (IHS) facility/Tribal 638 Facility, whereas services rendered by non-IHS providers qualify for the regular 2-to-1 federal match rate.

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

AHCCCS likely will realize savings from the higher match rate, as Native Americans enrollees typically represent approximately 9%-10% of the AHCCCS population. The magnitude of the savings is uncertain because federal law prohibits AHCCCS from requiring providers to develop the care coordination agreements that are required to qualify for the 100% match rate.

In October 2017, AHCCCS began operating a new Medical Home program for American Indians that may facilitate the adoption of care coordination agreements eligible for 100% federal funding. The program authorizes federal payments to IHS/Tribal 638 Providers that engage in care coordination efforts on behalf of American Indian enrollees. Certain Medical Home providers will participate in "Care Management Collaboratives" that will include opportunities to execute care coordination agreements, but since the agreements are still voluntary, the extent of the potential savings associated with this initiative is unknown.

Prescription Drug Rebate Fund

At the beginning of FY 2018, AHCCCS reported a one-time cash balance of \$78.6 million in the Prescription Drug Rebate Fund (PDRF) - State due to higher-than forecasted rebates from prior years. The budget transfers \$52.6 million of this balance to the General Fund in FY 2019. Under budgeted projections of ongoing fund revenues and disbursements, the PDRF - State balance is estimated to total \$20.2 million at the end of FY 2019 (*see Table 5*).

Table 5

State Prescription Drug Rebate Fund Sources and Uses		
	FY 2018	FY 2019
Revenues		
Projected Beginning Balance	\$ 78,570,500	\$ 72,821,700
Projected Rebate Collections	<u>139,942,400</u>	<u>148,457,900</u>
Total Revenues	\$218,512,900	\$221,279,600
Budgeted Disbursements		
Operating Budget and Administration	\$ 721,800	\$ 720,900
Proposition 206 Network Study	200,000	0
Traditional Services	137,191,000	140,158,600
ALTCS Services	<u>7,578,400</u>	<u>7,578,400</u>
Total Disbursements	\$145,691,200	\$148,457,900
General Fund Transfer	\$ 0	\$ 52,600,000
Projected Ending Balance	\$ 72,821,700	\$ 20,221,700

Waiver

Laws 2015, Chapter 7 requires AHCCCS to reapply by March 30 of each year to implement a lifetime limit of 5 years for enrollment of able-bodied adults and a requirement for able-bodied adults to work, actively seek work, or participate in a job training program. The federal government has not previously approved Arizona’s waiver application for these provisions. Laws 2018, Chapter 201 revises AHCCCS’ required annual waiver submission to exempt American Indians enrolled for services through the Indian Health Service or an Urban Indian Health program from such requirements.

On December 19, 2017 AHCCCS submitted a waiver amendment to implement a work requirement for able-bodied adults, with exemptions for the following populations:

- Individuals age 55 or older
- American Indians
- Former Arizona foster youth up to age 26
- Women for 90 days post-pregnancy
- Persons with a Serious Mental Illness
- Individuals receiving private or public disability benefits
- Full-time high school students older than age 18
- Full-time college or graduate students
- Victims of domestic violence
- Individuals who are homeless
- Individuals directly impacted by a natural disaster or death of someone in the same household
- Caregivers for a foster child less than 13 years old
- Caregivers for an ALTCS member
- Individuals who are medically frail

Able-bodied adults that do not receive an exemption would be required to engage in at least 20 hours of employment, school, or enrolled in an approved

employment support and development program. Employment support and development programs could include job training, English as a second language courses, parenting education, healthy living classes, health insurance competency, disease management education or, in some cases, community service. Failure to comply for 6 months or more would result in termination of AHCCCS coverage, but individuals could re-enroll once they have demonstrated 30 consecutive days of compliance.

AHCCCS also reapplied for the 5-year time limit on coverage, and has requested additional flexibility to limit non-emergency medical transportation, prior quarter coverage, prescription drug coverage, federally-qualified health center reimbursement, fee-for-service reporting requirements, and renewal of previously approved federal waivers. As of this writing, AHCCCS has not received federal approval.

SMI Funding

Table 6 shows the total Medicaid funding in FY 2019 for the integrated SMI population is \$1.0 billion for 43,519 recipients. This amount includes all funding for acute care and behavioral health services. State and federal funding for this population is located in the Traditional, Proposition 204, and Adult Expansion line items.

In FY 2019, an estimated \$30.5 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$6.2 million is state matching funds, and \$24.3 million is federal matching funds.

Table 6 FY 2019 Budgeted Medicaid Funding for Integrated SMI				
	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>	<u>Enrollees</u>
Traditional	\$155,340,100	\$359,542,500	\$ 514,882,600	21,653
Proposition 204	82,622,800	411,743,700	494,366,500	20,647
Adult Expansion	<u>1,897,800</u>	<u>27,298,800</u>	<u>29,196,600</u>	<u>1,219</u>
Total ^{1/}	\$239,860,700	\$798,585,000	\$1,038,445,700	43,519

^{1/} Estimates reflect Medicaid capitation spending for acute care and behavioral health services for the SMI population. They do not include any services funded by non-Medicaid state funds, federal grant funds, or county funds.

Access to Professional Services Initiative

AHCCCS is seeking federal approval of a proposal to create the Access to Professional Services Initiative (APSI). Under the program, providers at qualifying hospitals would receive a 40% rate increase for AHCCCS services.

AHCCCS plans to allocate rate increases to physicians, physician assistants, nurse practitioners, psychologists and other select providers. To qualify for added reimbursement, providers must be affiliated with one of the following types of hospitals:

- GME hospital operated by a special health care district.
- GME hospital that provides 30% or more of services to AHCCCS members and is operated by a university.
- Children's hospital or hospital unit with at least 100 pediatric beds.

The budget includes \$36.1 million in FY 2018 and \$51.2 million in FY 2019 to fund state and federal costs of the program across the line items for Traditional Services, Proposition 204 Services, and Adult Expansion Services. The state match for the program is provided through voluntary contributions from political subdivisions. The federal match would be funded at the regular match rate (69.83% in FY 2019). AHCCCS reports that 8 hospitals elected to participate in the program as of FY 2018.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in Table 7. 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 2017 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2019, this provision provides 4 counties with a total of \$8,608,100 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 2019, this provision provides 3 counties with a total of \$13,930,700 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 2019 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$41.09 in FY 2019). In FY 2019 this provision provides 7 counties with a total of \$13,132,200 in relief.

In FY 2019, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$35,671,000 in relief to 10 counties.

Program Components

Traditional Medicaid, Proposition 204, Adult Expansion, KidsCare, ALTCS, and CMDP services include the following costs:

County	FY 2018				FY 2019			
	BNCF	Acute	DUC	ALTCS	BNCF	Acute	DUC	ALTCS
Apache	\$120,500	\$268,800	\$87,300	\$657,500	\$123,800	\$268,800	\$0	\$644,500
Cochise	224,700	2,214,800	162,700	5,241,100	230,900	2,214,800	0	5,288,900
Coconino	221,700	742,900	160,500	1,974,000	227,800	742,900	0	1,935,200
Gila	91,100	1,413,200	65,900	2,208,500	93,600	1,413,200	0	2,239,000
Graham	64,700	536,200	46,800	1,561,800	66,500	536,200	0	1,578,400
Greenlee	16,600	190,700	12,000	28,000	17,100	190,700	0	49,000
La Paz	34,500	212,100	24,900	526,000	35,400	212,100	0	599,500
Maricopa	0	18,783,100	0	165,477,400	0	18,482,600	0	170,486,100
Mohave	258,800	1,237,700	187,400	8,350,800	266,000	1,237,700	0	8,479,400
Navajo	169,600	310,800	122,800	2,721,500	174,300	310,800	0	2,668,000
Pima	1,541,300	14,951,800	1,115,900	40,974,000	1,583,900	14,951,800	0	41,749,300
Pinal	301,600	2,715,600	218,300	15,344,200	309,900	2,715,600	0	13,853,200
Santa Cruz	71,300	482,800	51,600	2,040,600	73,200	482,800	0	2,084,400
Yavapai	284,900	1,427,800	206,200	8,840,500	292,800	1,427,800	0	8,334,500
Yuma	<u>254,000</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,727,300</u>	<u>261,000</u>	<u>1,325,100</u>	<u>0</u>	<u>8,565,400</u>
Subtotal	\$3,655,300	\$46,813,400	\$2,646,200	\$264,673,200	\$3,756,200	\$46,512,900	\$0	\$268,554,800
Total				\$317,788,100				\$318,823,900

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 2019, the average capitation rate for acute care, behavioral health services, and long term care is expected to be approximately \$482 per member per month (or \$5,789 annually). Of that amount, an average of \$109 is from state match and \$373 from Federal Medicaid Authority.

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 transfer up to \$1,636,000 from the Traditional Medicaid Services line item in FY 2019 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 \$816,000 appropriation (\$84,400 General Fund and \$731,600 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.

Tobacco Tax Allocations

The budget projects AHCCCS and DHS will receive \$149.6 million in transfers of tobacco tax collections in FY 2018. This amount represents a decrease of \$(7.5) million (4.8%) from the FY 2018 budgeted amount. *Table 8* summarizes tobacco tax transfers and allocations to the agencies.

Table 8

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

	FY 2017	FY 2018
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 684,000	\$ 17,300
Transfer In - Tobacco Tax and Health Care Fund	46,614,300	44,818,400
Transfer In - Tobacco Products Tax Fund	<u>25,436,700</u>	<u>24,435,300</u>
Total Funds Available	\$ 72,735,000	\$ 69,271,000
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ 72,042,700	\$ 72,998,200
Total AHCCCS Allocations	\$ 72,042,700	\$ 72,998,200
<i>DHS</i>		
Folic Acid	\$ 362,300	\$ 400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000
Administrative Adjustments	<u>87,700</u>	<u>0</u>
Total DHS Allocations	<u>675,000</u>	<u>700,000</u>
Balance Forward	\$ 17,300	\$ (4,427,200) *
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,209,700	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>39,426,800</u>	<u>38,010,500</u>
Total Funds Available	\$ 41,636,500	\$ 38,010,500
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 37,521,000	\$ 40,413,000
Administrative Adjustments	<u>4,115,500</u>	<u>0</u>
Balance Forward	\$ 0	\$ (2,402,500) *
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 1,050,900	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>18,778,200</u>	<u>18,100,200</u>
Total Funds Available	\$ 19,829,100	\$ 18,100,200
<u>Allocations</u>		
AHCCCS State Match Appropriation	18,747,200	19,244,300
Administrative Adjustments	<u>\$ 1,081,900</u>	<u>\$ 0</u>
Balance Forward ^{1/}	\$ 0	\$ (1,144,100) *
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 7,997,200	\$ 5,025,800
Transfer In - Tobacco Tax and Health Care Fund	15,260,300	14,726,100
Transfer In - Tobacco Products Tax Fund	<u>1,877,300</u>	<u>1,810,000</u>
Total Funds Available	\$ 25,134,800	\$ 21,561,900
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 17,785,300	\$ 20,872,900
Leading Causes of Death - Prevention and Detection	<u>2,323,700</u>	<u>2,727,100</u>
Balance Forward	\$ 5,025,800	\$ (2,038,100) *
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 10,367,500	\$ 10,425,900
Transfer In - Tobacco Tax and Health Care Fund	3,292,000	3,201,200
Transfer In - Tobacco Products Tax Fund	<u>4,657,400</u>	<u>4,525,100</u>
Total Funds Available	\$ 18,316,900	\$ 18,152,200
<u>Allocations</u>		
Biomedical Research Support ^{2/}	\$ 1,501,300	\$ 2,000,000
Alzheimer's Disease Research ^{3/}	2,000,000	2,000,000
Biomedical Research Commission ^{4/}	3,890,900	9,078,000
Administrative Adjustments	<u>498,800</u>	<u>0</u>
Balance Forward	\$ 10,425,900	\$ 5,074,200

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

^{2/} Laws 2014, Chapter 18 appropriates \$2,000,000 from the Health Research Account to DHS annually from FY 2015 to FY 2019 to distribute to a nonprofit medical research institute headquartered in Arizona. DHS distributes this to the Translational Genomics Research Institute (TGen).

^{3/} 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. Laws 2017, Chapter 305 continues the increase in FY 2018.

^{4/} 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 and FY 2019, including research grants, research education, biospecimen locator, and public cord blood.

* Actual ending balance will not be negative.

Arizona Commission on the Arts

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	1,500,000	1,500,000	2,000,000
AGENCY TOTAL	1,500,000	1,500,000	2,000,000
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	1,500,000	1,500,000	2,000,000
SUBTOTAL - Other Appropriated Funds	1,500,000	1,500,000	2,000,000
SUBTOTAL - Appropriated Funds	1,500,000	1,500,000	2,000,000
Other Non-Appropriated Funds			
	1,402,000 ^{1/}	1,747,400 ^{1/}	1,747,400 ^{1/}
Federal Funds	833,000	821,600	821,600
TOTAL - ALL SOURCES	3,735,000	4,069,000	4,569,000

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 \$2,000,000 from the Budget Stabilization Fund in FY 2019 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. FY 2019 adjustments are as follows:

One-Time Continuation and Increase

The budget includes an increase of \$500,000 from the Budget Stabilization Fund in FY 2019. The FY 2018 budget appropriated \$1,500,000 from the Budget Stabilization Fund on a one-time basis. The FY 2019 budget appropriates \$2,000,000 from the Budget Stabilization Fund on a one-time basis.

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, FY 2018 and FY 2019 General Appropriation Act are not displayed to avoid double counting of appropriations.

Board of Athletic Training

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	61,500	63,100	63,100
Employee Related Expenditures	34,000	37,100	36,800
Professional and Outside Services	500	0	6,800
Travel - In State	1,000	1,200	1,200
Other Operating Expenditures	13,700	19,200	15,600
AGENCY TOTAL	110,700	120,600	123,500^{1/}

FUND SOURCES

Other Appropriated Funds

Athletic Training Fund	110,700	120,600	123,500
SUBTOTAL - Other Appropriated Funds	110,700	120,600	123,500
SUBTOTAL - Appropriated Funds	110,700	120,600	123,500
TOTAL - ALL SOURCES	110,700	120,600	123,500

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

Operating Budget

The budget includes \$123,500 and 1.5 FTE Positions from the Athletic Training Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Private Rent Payments

The budget includes a decrease of \$(5,200) from the Athletic Training Fund in FY 2019 for the removal of private rent payments. The board relocated from private rental space to the 1740 W. Adams state office building in FY 2018. State rent payments are included in the Statewide Adjustments policy issue below.

Shared Services Costs

The budget includes an increase of \$1,400 from the Athletic Training Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-licensing Operating Costs

The budget includes an increase of \$6,800 from the Athletic Training Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-licensing system.

Statewide Adjustments

The budget includes a decrease of \$(100) from the Athletic Training Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$2,200 for relocations cost. This appropriation is not displayed in the table above.

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

Attorney General - Department of Law

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	580.7	580.7	588.7 ^{1/}
Personal Services	29,031,700	31,427,500	31,427,500
Employee Related Expenditures	10,533,000	12,375,100	12,269,200
Professional and Outside Services	795,300	379,600	379,600
Travel - In State	141,600	129,000	129,000
Travel - Out of State	135,500	151,900	151,900
Other Operating Expenditures	7,011,000	9,392,000	8,750,300
Equipment	501,800	118,400	118,400
OPERATING SUBTOTAL	48,149,900	53,973,500	53,225,900 ^{2/}
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	677,000	803,100	802,300
Case Management System Upgrade	0	0	1,489,000 ^{3/}
Child and Family Advocacy Centers	0	0	100,000 ^{4/}
Election Litigation Expenses	0	500,000	500,000
Federalism Unit	775,500	1,005,100	1,004,500
Government Accountability and Special Litigation	0	0	961,300
Internet Crimes Against Children Enforcement	728,800	1,250,000	1,250,000 ^{5/6/}
Military Airport Planning	83,200	85,000	85,000 ^{7/}
National Mortgage Settlement Distribution	2,344,300	0	0
Opioid Education	0	400,600 ^{8/}	0
Risk Management Interagency Service Agreements	8,638,700	9,468,600	9,570,000
Southern Arizona Law Enforcement	1,192,800	1,206,500	1,205,200
State Grand Jury	173,900	181,100	181,100
Tobacco Enforcement	164,400	823,900	823,000
Victims' Rights	3,609,700	3,761,300	3,766,800
AGENCY TOTAL	66,538,200	73,458,700	74,964,100 ^{9/}
FUND SOURCES			
General Fund	24,020,200	26,344,200	25,940,300
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	147,800	246,300	148,500
Attorney General Legal Services Cost Allocation Fund	1,931,900	2,080,400	2,102,800
Collection Enforcement Revolving Fund	6,282,000	6,920,900	6,904,500
Consumer Protection - Consumer Fraud Revolving Fund	3,935,900	6,335,600	7,213,600
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund	0	400,600	1,489,000
Court-Ordered Trust Fund	2,344,300	0	0
Interagency Service Agreements Fund	14,995,600	16,500,800	16,428,600 ^{10/}
Internet Crimes Against Children Enforcement Fund	632,100	900,000	900,000
Risk Management Revolving Fund	8,638,700	9,968,600	10,070,000
Victims' Rights Fund	3,609,700	3,761,300	3,766,800
SUBTOTAL - Other Appropriated Funds	42,518,000	47,114,500	49,023,800
SUBTOTAL - Appropriated Funds	66,538,200	73,458,700	74,964,100
Other Non-Appropriated Funds	55,976,300	61,198,600	61,198,600
Federal Funds	5,582,000	7,587,300	7,587,300
TOTAL - ALL SOURCES	128,096,500	142,244,600	143,750,000

^{1/} Includes 22.2 GF and 120 OF FTE Positions funded from Special Line Items in FY 2019.

AGENCY DESCRIPTION — The Attorney General is an elected constitutional officer. The office provides legal counsel to state agencies, represents the state in juvenile dependency matters, enforces civil rights, environmental, consumer protection and anti-trust laws, and investigates and prosecutes criminal cases, handles criminal appeals, and assists county attorneys.

Operating Budget

The budget includes \$53,225,900 and 446.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$23,131,600
Antitrust Enforcement Revolving Fund	148,500
Attorney General Legal Services Cost Allocation Fund (LSCAF)	2,102,800
Collection Enforcement Revolving Fund (CERF)	6,904,500
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	4,509,900
Interagency Service Agreements (ISA) Fund	16,428,600

FY 2019 adjustments are as follows:

Criminal Division Resources

The budget continues an increase of \$1,500,000 from the General Fund in FY 2019 for additional Criminal Division resources. The FY 2018 General Appropriation Act appropriated this amount for FY 2018, and a footnote continued this funding for both FY 2019 and FY 2020. As a result, this funding does not appear in the FY 2019 General Appropriation Act.

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 continue to offset the cost of 10 FTE Positions within the

Criminal Division. In lieu of increasing the agency's FTE Position authority, the budget continues to assume that the agency will use its existing FTE Position authority for these positions.

The FY 2019 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 278) authorized the AG to use \$1,400,000 from the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund in FY 2021 to offset operating expenses that would otherwise be paid from RICO funds. The Consumer Remediation Subaccount is a statutorily non-appropriated fund which receives monies from legal settlements. The AG is typically required to submit an expenditure plan to the Joint Legislative Budget Committee for review prior to expending monies from the fund. This review requirement will not apply to the \$1,400,000 in FY 2021 operating resources.

Attorney General Rent Adjustment

The budget includes a decrease of \$(884,500) in FY 2019 for a reduction of rent costs in state-owned space. This amount consists of:

General Fund	(638,300)
Antitrust Enforcement Revolving Fund	(151,000)
Attorney General LSCAF	(7,800)
CERF	(7,500)
CPCF Revolving Fund	(79,900)

In November 2017, the AG's Office moved from state-owned space at 1275 W. Washington Street to privately-leased space on Central Avenue. The decrease reflects the cost of the state-owned space.

- 2/ 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. (FY 2018 General Appropriation Act footnote)
- 3/ The amount appropriated to the Case Management System Upgrade line item is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until June 30, 2020. (General Appropriation Act Footnote)
- 4/ The amount appropriated for the Child and Family Advocacy Centers line item is allocated to the Child and Family Advocacy Center Fund established by A.R.S. § 41-191.11. (General Appropriation Act footnote)
- 5/ On or before June 1, 2018, the department shall submit an expenditure plan for the FY 2019 Internet Crimes Against Children Enforcement line item for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 6/ 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, 2020. (General Appropriation Act footnote)
- 7/ 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.
- 8/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.
- 9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 10/ 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 2019. (General Appropriation Act footnote)

Statewide Adjustments

The budget includes an increase of \$136,900 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	136,700
Antitrust Enforcement Revolving Fund	53,200
Attorney General LSCAF	30,200
CERF	(8,900)
CPCF Revolving Fund	(2,100)
ISA Fund	(72,200)

(Please see the Agency Detail and Allocations section.)

Capital Postconviction Prosecution

The budget includes \$802,300 and 6 FTE Positions from the General Fund in FY 2019 for Capital Postconviction Prosecution. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(800) from the General Fund in FY 2019 for statewide adjustments.

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

Case Management System Upgrade

The budget includes \$1,489,000 from the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund in FY 2019 for the AG's Case Management System Upgrade.

Case Management System Upgrade Funding

The budget includes an increase of 1,489,000 from the Consumer Remediation Subaccount in FY 2019 for an upgrade of the AG's Case Management System.

The funding in this line item will be used to upgrade the AG's Case Management information technology system and for software licensing compliance. This appropriation does not lapse until the end of FY 2020.

Child and Family Advocacy Centers

The budget includes \$100,000 from the General Fund in FY 2019 for the new Child and Family Advocacy Centers line item. FY 2019 adjustments are as follows:

Child and Family Advocacy Center Funding

The budget includes an increase of \$100,000 from the General Fund in FY 2019 for child and family advocacy center funding.

These monies will be deposited into the Child and Family Advocacy Centers Fund, which was created by Laws 2017, Chapter 257. Monies in the fund are for distribution 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.

Pursuant to statute, at least 90.25% of fund monies are allocated to grants to child and family advocacy centers and 4.75% to statewide child and family advocacy center organizations; no more than 5% of the fund may be retained by the AG for administrative costs. 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.

Election Litigation Expenses

The budget includes \$500,000 from the Risk Management Revolving Fund in FY 2019 for the new Election Litigation Expenses line item. FY 2019 adjustments are as follows:

Continue Election Litigation Funding

The budget continues an increase of \$500,000 from the Risk Management Revolving Fund in FY 2019 for election litigation expenses. The budget includes a supplemental appropriation of \$500,000 from the Risk Management Revolving Fund in FY 2018 for the same purpose and continues funding at the same level in FY 2019. *(Please see FY 2018 Supplemental in the Other Issues section.)*

The funding in this line item will be used to support legal costs associated with several lawsuits against the Secretary of State's office.

Federalism Unit

The budget includes \$1,004,500 and 7 FTE Positions from the CPCF Revolving Fund in FY 2019 for the Federalism Unit. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(600) from the CPCF Revolving Fund in FY 2019 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.

Government Accountability and Special Litigation Unit

The budget includes \$961,300 and 8 FTE Positions from the CPCF Revolving Fund in FY 2019 for the new Government Accountability and Special Litigation (GASL) Unit line item. FY 2019 adjustments are as follows:

GASL Unit Funding

The budget includes an increase of \$961,300 and 8 FTE positions from the CPCF Revolving Fund in FY 2019 for the GASL Unit.

Laws 2016, Chapter 35 requires that, at the request of a member of the Legislature, the AG investigate local government ordinances that potentially violate state law. Chapter 35 requires the AG to make a written report of its findings within 30 days of receiving the request. If the local ordinance is found to violate state law, the local governing body has 30 days to resolve the violation. After 30 days, the State Treasurer is instructed to withhold state shared monies from the locality.

In response to this legislation, the AG created the GASL unit. In addition to handling investigations of local ordinances, GASL engages in a variety of consumer protection functions that had previously been a part of the AG's Consumer Protection Unit. Monies in this line item will be used to support 8 FTE Positions in this unit.

Internet Crimes Against Children Enforcement

The budget includes \$1,250,000 in FY 2019 for the Internet Crimes Against Children (ICAC) Enforcement line item. This amount consists of:

General Fund	350,000
ICAC Enforcement Fund	900,000

These amounts are unchanged from FY 2018.

Laws 2015, Chapter 245 established in A.R.S. § 41-199 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.

A.R.S. § 41-199 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, then unclaimed lottery prize monies will be used to backfill the difference.

A.R.S. § 41-199 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 2019 amount does not lapse until the end of FY 2020.

Military Airport Planning

The budget includes \$85,000 and 1 FTE Position from the General Fund in FY 2019 for Military Airport Planning. These amounts are unchanged from FY 2018.

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.

Opioid Education

The budget includes no funding in FY 2019 for the Opioid Education line item. FY 2019 adjustments are as follows:

Remove One-Time Appropriation

The budget includes a decrease of \$(400,600) from the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund in FY 2019 for the elimination of one-time funding for opioid education.

Laws 2018, 1st Special Session, Chapter 1 included a FY 2018 Supplemental appropriation of \$400,600 for the Opioid Education line item. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. *(Please see FY 2018 Supplemental in Other Issues section.)*

Monies in this line item are used to provide community grants for opioid education and prevention efforts.

Risk Management Interagency Service Agreement

The budget includes \$9,570,000 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2019 for the Risk Management Interagency Service Agreement. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$101,400 from the Risk Management Revolving Fund in FY 2019 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 \$1,205,200 and 13 FTE Positions from the General Fund in FY 2019 for Southern Arizona Law Enforcement. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,300) from the General Fund in FY 2019 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 2019 for the State Grand Jury. These amounts are unchanged from FY 2018.

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 \$823,000 and 6.6 FTE Positions in FY 2019 for Tobacco Enforcement. These amounts consist of:

General Fund	85,100
CPCF Revolving Fund	737,900

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(900) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(200)
CPCF Revolving Fund	(700)

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 \$2,016,000 for the Attorney General to enforce the MSA in FY 2019.

Victims’ Rights

The budget includes \$3,766,800 and 6 FTE Positions from the Victims’ Rights Fund in FY 2019 for Victims’ Rights. FY 2019 adjustments are as follows:

Attorney General Rent Adjustment

The budget includes a decrease of \$(200) from the Victims’ Rights Fund in FY 2019 that had previously been allocated to support rent costs. *(Please see the Operating Budget section for more information.)*

Statewide Adjustments

The budget includes an increase of \$5,700 from the Victims’ Rights Fund in FY 2019 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:

- Long-Term Budget Impacts
- FY 2018 Supplemental
- Fund Transfers
- Volkswagen Settlements

- Attorney General Legal Services Cost Allocation Fund
- Additional Legislation

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the AG's General Fund costs are projected to decrease by \$(1.5) million in FY 2021 below FY 2019 and FY 2020 levels. This decrease is due to a footnote in the FY 2018 General Appropriation Act, which appropriated \$1.5 million in FY 2019 and FY 2020 for criminal division resources. *(Please see Criminal Division Resources in the Operating Budget section for more information.)*

The expiration of this General Fund appropriation in FY 2021 will be partially offset by the AG's authorization to use \$1.4 million in FY 2021 from the Consumer Remediation Subaccount for operating costs.

FY 2018 Supplemental

Laws 2018, 1st Special Session, Chapter 1 includes an FY 2018 supplemental appropriation of \$400,600 from the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund for the Opioid Education line item. *(Please see Opioid Education Line Item for additional information.)*

In addition, the FY 2019 budget includes an FY 2018 supplemental appropriation of \$500,000 from the Risk Management Revolving Fund for the Election Litigation line item. *(Please see the Election Litigation Line Item for additional information.)*

Fund Transfers

The budget includes the following transfers to the General Fund:

	FY 2018	FY 2019
Moody's Settlement	\$8,172,728	\$0
Volkswagen II Settlement	0	20,000,000

The FY 2018 General Appropriation Act included an 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 in the General Fund. *(Please see Fund Transfers in the FY 2018 Appropriations Report for more information.)*

The budget anticipates a General Fund deposit of \$20,000,000 in FY 2019 obtained by the AG from a \$40,000,000 settlement with the Volkswagen Group. This

deposit does not appear in the FY 2019 General Appropriation Act, as the settlement directs this amount directly to the General Fund. This settlement is separate from the multi-state settlement involving Volkswagen *(See Volkswagen Settlements section, below, for more information).*

Volkswagen Settlements

Arizona Consumer Protection Volkswagen Settlement

In May 2018, the AG settled a lawsuit against Volkswagen for violating Arizona's consumer protection laws. Of the total \$40.0 million legal settlement, \$20.0 million is expected to be deposited directly into the General Fund *(see Fund Transfers, above, for more information).*

In addition to the General Fund deposit, the AG will direct \$10.5 million to consumer restitution. The remaining \$9.5 million will be divided between outside legal counsel and the AG's Consumer Protection - Consumer Fraud Revolving Fund.

National Volkswagen Lawsuit Settlement

Separate from the Arizona-specific consumer protection lawsuit settlement described above, Arizona was party to a FY 2017 multi-state settlement with Volkswagen related to environmental enforcement. From the multi-state settlement, Arizona will receive approximately \$57.0 million over 10 years in settlement monies to support eligible air pollution mitigation activities. The Executive is responsible for the allocation of these funds. *(Please see Operating Budget narrative in the Department of Environmental Quality section and Vehicle Replacement narrative in the Department of Transportation section for more information regarding expenditures of Volkswagen funds.)*

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. See *Table 1* for a list of agencies and their corresponding FY 2019 Attorney General Legal Services charge. The FY 2019 Criminal Justice BRB removes the requirement that each agency report to the Joint Legislative Budget Committee the fund sources used to pay the Attorney General's Legal Services Cost Allocation Fund charges.

(Please see the FY 2015 Appropriations Report for a more detailed history on legal services charges, and the FY 2018 Appropriations Report for changes that occurred after FY 2015.)

Table 1

FY 2019 Attorney General Legal Services Charges

Agency	Legal Services Charge
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	173,800
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
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 fund was not subject to lapsing at the end of the fiscal year. The FY 2019 Criminal Justice BRB increases this non-lapsing amount to \$1,000,000.

Regulatory Sandbox Program

Laws 2018, Chapter 44 requires the AG to establish a "Regulatory Sandbox Program" (RSP). The RSP allows individuals to apply for limited access to Arizona's markets for the purpose of testing financial products or services prior to obtaining a license. Products being tested through the RSP are subject to a variety of requirements such as loan limits and participant caps.

The AG will be required to process RSP applications and ensure compliance with program requirements. Fees associated with these applications will be deposited into the CPCF Revolving Fund.

Victims' Rights Fund Deposits

The Victims' Rights Fund will no longer receive revenues from the Criminal Justice Enhancement Fund surcharge, and instead will receive funds from a new \$9 penalty on criminal and civil violations. *(Please see Criminal Justice Enhancement Fund Recipient Changes in the Other Issues section of the Arizona Criminal Justice Commission narrative for more information.)*

Additional Legislation

Report on Setoffs of the Cost of Incarceration

The FY 2019 Criminal Justice BRB removes the requirement that the Attorney General report on any setoffs of the costs of incarceration against monetary judgements awarded to inmates in the past 6 months.

Collection Enforcement Carryforward

The appropriated Collection Enforcement Revolving Fund (CERF) receives 35% of monies recovered by the AG from debts owed to the state. Previously, up to \$500,000 in

Automobile Theft Authority

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	312,900	342,300	342,300
Employee Related Expenditures	122,600	145,100	143,200
Professional and Outside Services	33,700	15,600	15,600
Travel - In State	1,100	4,500	4,500
Travel - Out of State	3,700	8,500	8,500
Other Operating Expenditures	125,800	102,700	112,100
Equipment	19,800	25,000	25,000
OPERATING SUBTOTAL	619,600	643,700	651,200
SPECIAL LINE ITEMS			
Arizona Vehicle Theft Task Force	0	3,650,000	3,650,000 ^{1/}
Automobile Theft Authority Grants	4,593,600	0	0
Local Grants	0	957,700	957,700 ^{2/}
Reimbursable Programs	0	50,000	50,000 ^{3/}
AGENCY TOTAL	5,213,200	5,301,400	5,308,900 ^{4/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automobile Theft Authority Fund	5,213,200	5,301,400	5,308,900
SUBTOTAL - Other Appropriated Funds	5,213,200	5,301,400	5,308,900
SUBTOTAL - Appropriated Funds	5,213,200	5,301,400	5,308,900
Other Non-Appropriated Funds	73,300	14,800	14,800
TOTAL - ALL SOURCES	5,286,500	5,316,200	5,323,700

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 \$651,200 and 6 FTE Positions from the ATA Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$7,500 from the ATA Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Arizona Vehicle Theft Task Force

The budget includes \$3,650,000 from the ATA Fund in FY 2019 for the Arizona Vehicle Theft Task Force. This amount is unchanged from FY 2018.

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.)*

- ^{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 Authority 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.

Local Grants

The budget includes \$957,700 from the ATA Fund in FY 2019 for Local Grants. This amount is unchanged from FY 2018.

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 2019 for Reimbursable Programs. This amount is unchanged from FY 2018.

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

Other Issues

Automobile Theft Authority Grants

The ATA was appropriated \$4,607,700 from the ATA Fund in FY 2019 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 2018 and estimated FY 2019 distributions by recipient and category.

Table 1

ATA Grant Recipients		
Recipient	FY 2018	FY 2019 est. ^{1/}
Arizona Vehicle Theft Task Force (DPS)	\$3,650,000	\$3,650,000
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 235,800	\$ 235,800
Pima County Attorney	216,100	216,100
Pinal County Attorney	169,100	169,100
La Paz County Attorney	119,700	119,700
Mohave County Attorney	109,600	109,600
Santa Cruz County Attorney	80,800	80,800
Subtotal	\$ 931,100	\$ 931,100
Law Enforcement Grants		
Chandler Police Department	\$ 5,300	\$ -
La Paz County Sheriff	32,500	-
Unallocated	0	25,400
Subtotal	\$ 37,800	\$ 25,400
Professional Training Grants	\$ 0	\$ 0
Public Awareness Grants		
Quartzite Police Department	\$ 1,200	\$ -
Unallocated	0	1,200
Subtotal	\$ 1,200	\$ 1,200
Discretionary Grants	\$ 0	\$ 0
TOTAL	\$4,620,100 ^{2/}	\$ 4,607,700

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

^{2/} This amount exceeds the FY 2018 appropriated amount for grant funding due to \$12,400 of carry forward awarded from the FY 2017 ATA appropriation.

Board of Barbers

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	183,600	183,600	183,600
Employee Related Expenditures	68,400	68,400	66,900
Professional and Outside Services	1,300	1,300	1,300
Travel - In State	8,700	8,700	8,700
Travel - Out of State	3,300	3,300	3,300
Other Operating Expenditures	38,600	79,900	136,700
Equipment	600	600	600
AGENCY TOTAL	304,500	345,800	401,100 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Barbers Fund	304,500	345,800	401,100
SUBTOTAL - Other Appropriated Funds	304,500	345,800	401,100
SUBTOTAL - Appropriated Funds	304,500	345,800	401,100
TOTAL - ALL SOURCES	304,500	345,800	401,100

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 \$401,100 and 4 FTE Positions from the Board of Barbers Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

E-Licensing Operating Costs

The budget includes an increase of \$41,000 from the Board of Barbers Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Shared Services Costs

The budget includes an increase of \$4,700 from the Board of Barbers Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$9,600 from the Board of Barbers Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$10,100 for relocation costs. This appropriation is not displayed in the table above.

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

Board of Behavioral Health Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	821,800	900,400	900,400
Employee Related Expenditures	324,400	335,400	328,500
Professional and Outside Services	187,800	267,100	267,100
Travel - In State	7,700	10,000	10,000
Travel - Out of State	8,200	8,000	8,000
Other Operating Expenditures	186,900	236,500	237,900
Equipment	5,200	20,400	20,400
AGENCY TOTAL	1,542,000	1,777,800	1,772,300 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Behavioral Health Examiners Fund	1,542,000	1,777,800	1,772,300
SUBTOTAL - Other Appropriated Funds	1,542,000	1,777,800	1,772,300
SUBTOTAL - Appropriated Funds	1,542,000	1,777,800	1,772,300
TOTAL - ALL SOURCES	1,542,000	1,777,800	1,772,300

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 \$1,772,300 and 17 FTE Positions from the Board of Behavioral Health Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Private Rent Payments

The budget includes a decrease of \$(99,000) from the Board of Behavioral Health Examiners Fund in FY 2019 for the removal of private rent payments. The board relocated from private rental space to the 1740 W. Adams state office building in FY 2018. State rent payments are included in the Statewide Adjustments policy issue below.

Shared Services Costs

The budget includes an increase of \$16,600 from the Board of Behavioral Health Examiners Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$76,900 from the Board of Behavioral Health Examiners Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Statewide 90/10 E-Licensing

The budget includes a FY 2019 transfer of \$450,000 from the Board of Behavioral Health Examiners Fund to the Arizona Department of Administration for a statewide 90/10 E-Licensing project. *(Please see the Department of Administration - Automation Projects Fund narrative for details regarding this information technology project.)*

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$32,600 for relocation costs. This appropriation is not displayed in the table above.

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

State Board for Charter Schools

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	570,400	681,200	681,200
Employee Related Expenditures	225,600	287,900	280,900
Professional and Outside Services	43,100	45,700	45,700
Travel - In State	4,500	17,300	17,300
Travel - Out of State	2,800	5,500	5,500
Other Operating Expenditures	140,600	160,000	176,200
Equipment	10,300	3,000	3,000
AGENCY TOTAL	997,300	1,200,600	1,209,800 ^{1/}
FUND SOURCES			
General Fund	997,300	1,200,600	1,209,800
SUBTOTAL - Appropriated Funds	997,300	1,200,600	1,209,800
Other Non-Appropriated Funds	32,000	61,500	61,500
TOTAL - ALL SOURCES	1,029,300	1,262,100	1,271,300

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 435 charter schools.

Operating Budget

The budget includes \$1,209,800 and 14 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$9,200 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Additional Legislation

Charter Schools Financial Performance

The FY 2019 K-12 Education Budget Reconciliation Bill (Laws 2018, Chapter 285), as permanent law, gives the State Board for Charter Schools authority to close charter schools based on failure to meet financial performance expectations.

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

Department of Child Safety

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,147.2	3,193.1	3,193.1 ^{1/}
Personal Services	50,402,800	54,519,600	53,940,700
Employee Related Expenditures	21,093,600	21,002,100	20,729,100
Professional and Outside Services	5,304,700	12,646,700	12,681,900
Travel - In State	522,400	522,400	638,500
Travel - Out of State	169,800	168,400	207,500
Other Operating Expenditures	23,039,600	19,707,400	20,337,600
Equipment	1,334,800	1,571,000	1,622,300
OPERATING SUBTOTAL	101,867,700	110,137,600	110,157,600 ^{2/-9/}
SPECIAL LINE ITEMS			
Additional Operating Resources			
Caseworkers	89,150,800	99,845,400	99,850,900
Attorney General Legal Services	25,416,800	25,548,300	25,522,800 ^{10/}
Backlog Privatization	2,700,000 ^{11/}	0	0
General Counsel	130,100	156,200	155,900
Inspections Bureau	2,207,900	2,480,300	2,479,300
Litigation Expenses	0	2,471,200 ^{12/}	3,770,000 ^{13/}
New Case Aides	509,500	3,077,100	3,073,700
Office of Child Welfare Investigations	7,847,300	9,648,000	9,633,000
Overtime Pay	6,996,600	8,387,300	8,390,900
Records Retention Staff	574,100	594,600	594,200
Retention Pay	895,300	1,707,000	1,707,000
Training Resources	8,926,000	9,150,000	9,150,000
Out-of-Home Placements			
Congregate Group Care	101,000,100	98,900,100	98,900,100
Foster Home Placement	56,144,000	59,595,500	52,595,500
Foster Home Recruitment, Study and Supervision	0	32,753,600	32,753,600
Independent Living	3,941,200	4,660,000	4,660,000
Kinship Care	541,000	2,000,000	2,000,000 ^{14/}
Permanent Placements			
Adoption Services	226,993,300	245,498,100	278,258,500
Permanent Guardianship	11,684,500	12,516,900	12,516,900
Support Services			
DCS Child Care Subsidy	47,420,600	48,159,400	48,159,400
In-Home Mitigation	29,221,800	28,988,100	28,988,100
Out-of-Home Support Services	184,297,800	154,518,900	154,518,900
Preventive Services	15,148,300	15,148,300	15,148,300
AGENCY TOTAL	923,614,700	975,941,900	1,002,984,600 ^{15/}
FUND SOURCES			
General Fund	374,445,500	379,790,800	375,838,700
<u>Other Appropriated Funds</u>			
Child Abuse Prevention Fund	1,000,000	1,459,300	1,459,300
Children and Family Services Training Program Fund	78,400	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	149,461,100	149,472,700	157,279,300
Risk Management Revolving Fund	0	2,471,200	3,770,000

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
SUBTOTAL - Other Appropriated Funds	177,539,500	180,610,300	189,715,700
SUBTOTAL - Appropriated Funds	551,985,000	560,401,100	565,554,400
<u>Expenditure Authority Funds</u>			
Child Safety Expenditure Authority	371,629,700	415,540,800	437,430,200
SUBTOTAL - Expenditure Authority Funds	371,629,700	415,540,800	437,430,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	923,614,700	975,941,900	1,002,984,600
TOTAL - ALL SOURCES	923,614,700	975,941,900	1,002,984,600

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 2019.
- 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, 2018, and on or before the last day of every calendar quarter through June 30, 2019, the Department of Child Safety shall present a report for review by the Joint Legislative Budget Committee on the progress made in 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 in comparison to the previous 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.
For backlog cases, the department's quarterly benchmark is 1,000 cases.
For open reports, the department's benchmark is to have fewer than 8,000 open reports.
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 January 31, 2018. 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 January 31, 2018 be 7.8%, or at or below 13,964 children, on or before June 30, 2019.
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 of Child Safety's operating lump sum quarterly budget allocation until the Department of Child Safety submits the quarterly report. (General Appropriation Act footnote)
- 5/ 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)
- 6/ 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)
- 7/ 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. 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)
- 8/ 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)
- 9/ 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)
- 10/ 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)
- 11/ The sum of \$2,700,000 appropriated to the Department of Child Safety in FY 2017 for backlog privatization reverts to the state General Fund on June 30, 2018. (General Appropriation Act footnote)

Summary

DCS' General Fund spending decreases by \$(3,952,100) in FY 2019, or (1.0)%, including:

- \$1,180,000 for caseload growth in the adoption program
- \$(5,000,000) for a General Fund decrease and a corresponding \$5,000,000 increase from the Federal TANF Block Grant
- \$(132,100) for statewide adjustments

Operating Budget

The budget includes \$110,157,600 and 1,311.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$57,815,100
Federal TANF Block Grant	16,958,500
Child Safety Expenditure Authority	35,384,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$20,000 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(20,700)
Federal TANF Block Grant	30,500
Child Safety Expenditure Authority	10,200

(Please see the Agency Details and Allocations section.)

Additional Operating Resources

Caseworkers

The budget includes \$99,850,900 and 1,406 FTE Positions in FY 2019 for caseworkers. These amounts consist of:

General Fund	36,278,100
Children and Family Services Training Program Fund	207,100

- 12/ The sum of \$2,471,200 appropriated to the Department of Child Safety in FY 2018 by Laws 2017, Chapter 305, Section 19 for litigation expenses is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2019. (General Appropriation Act footnote)
- 13/ The amount appropriated for Litigation Expenses is exempt from the provisions of A.R.S. § 35-190 relating to lapsing appropriations until June 30, 2020. (General Appropriation Act footnote)
- 14/ The state General Fund amount appropriated for Kinship Care 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)
- 15/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Federal TANF Block Grant	30,050,100
Child Safety Expenditure Authority	33,315,600

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$5,500 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(54,000)
Federal TANF Block Grant	50,100
Child Safety Expenditure Authority	9,400

This line item funds 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 2018, DCS had filled 1,300 of these positions, or (106) fewer filled positions than the funded amount.

<u>Direct Line Staff Type</u>	<u>DCS Caseworker Hiring</u>		<u>Difference</u>
	<u>Funded Positions</u>	<u>April 2018</u>	
Case-Carrying Caseworkers	1,190	1,082	(108)
Caseworkers in Training	140	150	10
Hotline Staff	76	68	(8)
Total	1,406	1,300	(106)

Attorney General Legal Services

The budget includes \$25,522,800 and 276.2 FTE Positions in FY 2019 for Attorney General Legal Services. These amounts consist of:

General Fund	18,646,000
Federal TANF Block Grant	99,700
Child Safety Expenditure Authority	6,777,100

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(25,500) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(31,200)
Federal TANF Block Grant	300
Child Safety Expenditure Authority	5,400

This line item funds 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 \$155,900 and 1 FTE Position from the General Fund in FY 2019 for General Counsel. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(300) from the General Fund in FY 2019 for statewide adjustments.

Unlike the Attorney General Legal Services line item which funds representation of DCS in administrative or judicial proceedings, this line item funds the DCS General Counsel, who provides legal advice to the Director.

Inspections Bureau

The budget includes \$2,479,300 and 31 FTE Positions in FY 2019 for the Inspections Bureau. These amounts consist of:

General Fund	1,330,500
Federal TANF Block Grant	550,700
Child Safety Expenditure Authority	598,100

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,000) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(2,400)
Federal TANF Block Grant	1,000
Child Safety Expenditure Authority	400

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 \$3,770,000 from the Risk Management Revolving Fund in FY 2019 for Litigation Expenses. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,298,800 from the Risk Management Revolving Fund in FY 2019 for DCS' legal expenses in 2 class action lawsuits. The funding in this line item is designated as one-time in the 3-year spending plan associated with the enacted FY 2019 budget.

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.

DCS has used the funds in this line to retain outside counsel for its legal defense, expert witnesses, discovery costs, and other expenses. The following appropriations have been made to this line since FY 2017:

- 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. The appropriation is non-lapsing until June 30, 2018.
- The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) included \$2,471,200 in Risk Management Revolving Fund monies for DCS litigation expenses. This amount is non-lapsing until June 30, 2019.
- The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) includes \$3,770,000 from the Risk Management Revolving Fund for Litigation Expenses. This amount is non-lapsing until June 30, 2020.

New Case Aides

The budget includes \$3,073,700 and 34 FTE Positions in FY 2019 for New Case Aides. These amounts consist of:

General Fund	2,496,000
Child Safety Expenditure Authority	577,700

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(3,400) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(4,000)
Child Safety Expenditure Authority	600

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.

Office of Child Welfare Investigations

The budget includes \$9,633,000 and 127 FTE Positions in FY 2019 for the Office of Child Welfare Investigations (OCWI). These amounts consist of:

General Fund	9,531,000
Child Safety Expenditure Authority	102,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(15,000) from the General Fund in FY 2019 for statewide adjustments.

OCWI investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As of April 2018, the department had hired 101 of the 127 appropriated FTE Positions.

Overtime Pay

The budget includes \$8,390,900 in FY 2019 for Overtime Pay. This amount consists of:

General Fund	2,599,900
Federal TANF Block Grant	3,866,400
Child Safety Expenditure Authority	1,924,600

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$3,600 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(4,100)
Federal TANF Block Grant	6,900
Child Safety Expenditure Authority	800

Monies in this line fund overtime pay for DCS.

Records Retention Staff

The budget includes \$594,200 and 5 FTE Positions in FY 2019 for Records Retention Staff. These amounts consist of:

General Fund	497,500
Child Safety Expenditure Authority	96,700

Statewide Adjustments

The budget includes a decrease of \$(400) from the General Fund in FY 2019 for statewide adjustments.

This line item funds 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 2019 for Retention Pay. This amount is unchanged from FY 2018.

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. Pursuant to a FY 2018 General Appropriation Act footnote, DCS submitted an FY 2018 expenditure plan for retention pay monies to JLBC in June 2017. The Committee favorably reviewed DCS' plan, which allocates retention pay funding to DCS program manager salary adjustments, incentive pay for excellent performance, and ongoing retention stipends for staff hired prior to June 2016.

Training Resources

The budget includes \$9,150,000 in FY 2019 for Training Resources. This amount consists of:

General Fund	150,000
Child Safety Expenditure Authority	9,000,000

These amounts are unchanged from FY 2018.

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.

Out-of-Home Placements

DCS places children in out-of-home care when the department determines, after investigating a report of child abuse or neglect, that no services or interventions can adequately ensure the child’s health and safety in the home. *Table 2* shows out-of-home placements by setting each year.

	June 2016	June 2017	Feb. 2018
Kinship Care ^{1/}	7,468	6,511	5,785
Foster Home	6,986	6,545	6,112
Congregate Group Care	2,727	2,563	2,238
Group Home	1,999	1,880	1,712
Emergency Shelter	359	239	131
Behavioral Health Placement	369	444	395
Independent Living	495	476	482
Other ^{2/}	611	540	448
Total	18,287	16,635	15,065

^{1/} Includes unlicensed relative and non-relative placements.
^{2/} Includes runaways, children with no identified placement, and trial home visits.

Congregate Group Care

The budget includes \$98,900,100 in FY 2019 for Congregate Group Care. This amount consists of:

General Fund	36,028,000
Federal TANF Block Grant	21,423,000
Child Safety Expenditure Authority	41,449,100

FY 2019 adjustments are as follows:

Fund Shift

The budget includes no net change in FY 2019 to shift Congregate Care funding from the General Fund to TANF. The TANF monies are available due to declining TANF Cash Benefits caseloads within DES. This amount consists of:

General Fund	(5,000,000)
Federal TANF Block Grant	5,000,000

(See DES narrative for additional information on TANF Cash Benefits caseloads.)

Caseload – In FY 2017, there was a monthly average of caseload of 465 emergency shelter placements and 2,212 residential placements. At an average monthly cost of \$2,620 per emergency placement and \$3,354 per residential placement, funding in this line is sufficient for an average monthly caseload of 444 emergency placements and 2,111 residential placements in FY 2019.

Background – This line item funds short-term placement at shelter facilities for children removed from their homes, usually for 21 days or less; group home placements; and placements at behavioral health facilities licensed by the Department of Health Services, such as behavioral health group homes and residential treatment centers. DCS pays the cost of behavioral health facility placements for non-Medicaid CMDP children and pays for the room and board expenditures for Medicaid-eligible children. All other behavioral health facility costs are funded by the RBHAs within the AHCCCS budget.

Foster Home Placement

The budget includes \$52,595,500 in FY 2019 for Foster Home Placement. This amount consists of:

General Fund	23,187,500
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	22,434,900

FY 2019 adjustments are as follows:

Caseload Rebase

The budget includes a decrease of \$(7,000,000) from the General Fund in FY 2019 to reflect a (9.6)% year-over-year caseload decline in licensed foster home placements through February 2018. The General Fund decrease is reallocated to the Adoption Services line item to fund caseload growth in the Adoption program. (See the Adoption Services line item for additional information.)

Caseload – In FY 2017, a monthly average of 6,620 clients received licensed foster home services. The average monthly cost of the maintenance subsidy for FY 2017 was \$701. At an average monthly cost of \$701, the funding in this line item is sufficient for 6,252 foster home placements in FY 2019.

Background – The Foster Home Placement line item provides funding for the placement of children in the child welfare system into foster homes. This line item includes the cost of the maintenance payments for licensed foster homes. Unlicensed foster homes are funded in the Kinship Care line item.

Foster Home Recruitment, Study and Supervision

The budget includes \$32,753,600 in FY 2019 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 are unchanged from FY 2018.

Background – This line item funds contracts with child welfare licensing agencies that recruit foster families, complete home studies to ensure that foster homes comply with requirements for licensure, and provide ongoing monitoring and oversight of foster homes.

Independent Living Maintenance

The budget includes \$4,660,000 in FY 2019 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 2018.

Caseload – In FY 2017, a monthly average of 520 clients received the Independent Living Subsidy; the average monthly subsidy for FY 2017 was \$624. At an average monthly cost of \$624, the funding in this line item is sufficient to fund 622 placements in FY 2019.

Background – The independent living subsidy program provides a monthly stipend to foster youths who are living on their own and enrolled in a postsecondary program or employed while remaining in the custody of the department. The subsidy becomes available once the child turns age 18, and can be paid until the recipient turns 21.

Kinship Care

The budget includes \$2,000,000 from the General Fund in FY 2019 for Kinship Care. This amount is unchanged from FY 2018.

Caseload – In FY 2017, a monthly average of 953 enrollees received the Kinship Stipend. At \$75 per month, the line item is sufficient to fund a monthly average of 2,222 children in kinship care.

Background – This line item funds the Kinship Stipend, which provides a \$75 monthly stipend per child to unlicensed kinship caregivers with incomes not exceeding 200% of the Federal Poverty Level. Unlicensed kinship caregivers may include relatives as well as non-relative caregivers of fictive kinship. "Fictive kin" are caregivers that have a meaningful relationship with the child, but are not related by blood or by marriage.

Permanent Placements

DCS subsidizes the care of children who exit out-of-home care for placements in adoptive homes or for custody with permanent guardians. Table 3 shows the total caseload for permanent placements. In FY 2017, 33% of children exiting out-of-home care were adopted and 6% entered permanent guardianship. Most of the remaining children exiting care are reunified with their biological parents.

Table 3

	Permanent Placements		
	June 2016	June 2017	Feb. 2018
Adoption	24,040	27,070	28,612
Permanent Guardianship	<u>2,572</u>	<u>2,582</u>	<u>2,606</u>
Total	26,612	29,652	31,218

Adoption Services

The budget includes \$278,258,500 in FY 2019 for Adoption Services. This amount consists of:

General Fund	86,145,800
Federal TANF Block Grant	23,163,500
Child Safety Expenditure Authority	168,949,200

FY 2019 adjustments are as follows:

Caseload Growth

The budget includes an increase of \$32,760,400 in FY 2019 for 10.8% caseload growth in the Adoption program. This amount consists of:

General Fund	8,180,000
Federal TANF Block Grant	2,717,800
Child Safety Expenditure Authority	21,862,600

The General Fund increase is financed by a \$7,000,000 transfer from the Foster Home Placement line item due to caseload declines and \$1,180,000 in new General Fund monies. The \$2,717,800 increase from the Federal TANF Block Grant consists of TANF monies transferred from DES' Child Care Subsidy line item. (See DES narrative for additional information.)

The Expenditure Authority fund source includes federal IV-E monies that serve as matching funds for most adoption subsidies, as well as \$3,700,000 in federal Adoption Incentive Funds, which are federal grants DCS receives for increasing the rate of adopted children. The \$3,700,000 represents a prior year fund balance that DCS plans to roll forward to offset state adoption costs in FY 2019.

Caseload – In FY 2017, a monthly average of 25,907 clients received adoption subsidies; the average monthly cost for FY 2017 was \$730. At that monthly cost, the budget is sufficient for 31,771 total placements in FY 2019.

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.

Permanent Guardianship Subsidy

The budget includes \$12,516,900 in FY 2019 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 2018.

Caseload – In FY 2017, a monthly average of 2,590 clients received permanent guardianship subsidies; the average monthly subsidy for FY 2017 was \$374. At \$374 monthly, the funding in this line item is sufficient to fund 2,789 total placements in FY 2019.

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 2019 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 are unchanged from FY 2018.

Caseload – In FY 2017, a monthly average of 9,316 children received DCS child care; the average monthly subsidy for FY 2017 was \$409. At \$409 monthly, the funding in this line item is sufficient for an average monthly caseload of 9,812 children in FY 2019.

Background – This line item funds 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 both licensed and unlicensed foster care and children in 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 2019 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 2018.

Background – This line item funds DCS’ in-home services program for families with a child at risk of out-of-home placement. Contracted in-home services provide a wide range of voluntary services for up to 120 days intended to ensure that children remain safely at home, including parent education, counseling, domestic violence intervention, behavioral management, home management, and linkages to community resources. This line item also funds family reunification and placement stabilization services, which are intended to assist children returning home following an out-of-home placement or children that are transitioning from a more restrictive placement (such as congregate care) to a less restrictive placement (such as a family foster home.) DCS reports that there were 5,135 new referrals to the in-home services program in FY 2017.

Out-of-Home Support Services

The budget includes \$154,518,900 in FY 2019 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 are unchanged from FY 2018.

Background – This line item funds services for children in out-of-home care and their families, including supervised visitation, parent aide, health care services, allowances, transportation, substance abuse treatment, and independent living services.

Preventive Services

The budget includes \$15,148,300 in FY 2019 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 2018.

Background – This line item funds programs to reduce out-of-home placements. The programs include the Healthy Families and Building Resilient Families programs.

Other Issues

This section includes information on the following topics:

- CHILDS Replacement Project
- Additional Legislation
- Line Item Transfers
- Family First Prevention Services Act
- DCS Funding

CHILDS Replacement Project

The budget includes an FY 2019 transfer of \$5,000,000 from the General Fund to the Arizona Department of Administration for the CHILDS Replacement Project. *(Please see the Department of Administration - Automation Projects Fund narrative for details regarding this information technology project.)*

Additional Legislation

FY 2019 Human Services BRB

The FY 2019 Human Services BRB contains the following provisions related to DCS:

- As session law, Section 1 revises the FY 2018 Human Services BRB (Laws 2017, Chapter 311) to delay an Auditor General audit of DCS caseworker caseload standards until December 31, 2020. It also clarifies that that the audit shall include an analysis of the differences in caseworker caseloads between department field offices.
- As session law, Section 6 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, 2019 on their collaborative efforts to address child welfare issues of common concern.

DCS Reporting Requirements

Laws 2018, Chapter 110 consolidates several existing reports from DCS into a monthly report, a semi-annual report, and an annual report. To conform with the new reporting requirements in Chapter 110, the General Appropriation Act (Laws 2018, Chapter 276) eliminates longstanding footnotes requiring DCS to submit a monthly staffing report and financial report to the Legislature. Chapter 110 incorporates these 2 reporting requirements in statute within DCS' consolidated monthly report.

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 prior years, an FY 2018 General Appropriation Act footnote requires DCS to submit proposed line item transfers to JLBC for review prior to executing them. The budget continued this footnote in FY 2019.

Table 4 shows General Fund transfers from FY 2018. The FY 2019 budget partially recognizes the transfers out of Foster Home Placement into Adoption Services in FY 2018 by incorporating a \$(7.0) million reduction from the General Fund from Foster Home Placement and a corresponding increase of \$7.0 million from the General Fund for Adoption Services in FY 2019.

Family First Prevention Services Act

The federal Bipartisan Budget Act of 2018 (P.L. 115-123) enacted in February 2018 incorporated provisions from previously introduced legislation called the Family First Prevention Services Act, which makes changes to federal IV-E financing of state and local child welfare services. The major changes include:

- Beginning October 1, 2019, states will have the option of receiving uncapped IV-E federal reimbursement for in-home preventive services for families of children at risk of being placed in foster care, including mental health and substance abuse prevention and treatment services as well as in-home parent skill-based programs. The federal match rate will be 50%, and will only be applied to state expenditures above a state maintenance-of-effort requirement.
- Beginning October 1, 2019, federal IV-E reimbursement for congregate care placements will be limited to 2 weeks, except for children with

serious behavioral or emotional disorders that are placed in "Qualified Residential Treatment Programs" meeting certain criteria.

- Delays the full phase-out of income eligibility standards for children age 2 or under in the IV-E adoption program until July 1, 2024. Prior federal legislation had originally scheduled a full phase-out by October 1, 2017.

States have the option to delay the implementation date of the limitations on congregate care funding for 2 years. Any requested delay would result in a corresponding delay of the availability of the new IV-E monies for in-home preventive services. DCS has not provided an estimate of the fiscal impact of the bill. While the new IV-E funding for in-home services will reduce the cost of future in-home program expansions, the more restrictive reimbursement rules for congregate care placements will likely reduce federal funding for congregate care. The changes in IV-E adoption eligibility will not reduce current federal IV-E adoption funding for DCS, but will delay federal funding increases that would have otherwise occurred under federal law.

DCS Funding

Table 5 provides a historical view of total funding for DCS and reports of maltreatment since FY 2008. Table 6 provides a breakdown of expenditure authority funding for DCS in FY 2019 by fund source.

Table 4

FY 2018 General Fund Line Item Transfers ^{1/}

	<u>FY 2018 Appropriation</u>	<u>FY 2018 Transfers</u>	<u>FY 2018 Final Appropriation</u>	<u>FY 2019 Budget</u>
Foster Home Placement	\$30,187,500	\$(6,500,000)	\$23,687,500	\$23,187,500
Independent Living Maintenance	2,969,300	(680,000)	2,289,300	\$2,969,300
Adoption Services	77,965,800	7,680,000	85,645,800	86,145,800
Permanent Guardianship Subsidy	10,573,900	(500,000)	10,073,900	10,573,900

^{1/} Represents transfers completed as of June 2018. There may be additional transfers completed at a later date.

Table 5

Department of Child Safety Total Fund Expenditures ^{1/}
(\$ in Millions)

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>Reports of Child Maltreatment</u>
2008	\$509.9	34,989
2009	\$487.6	33,186
2010	\$448.9	33,839
2011	\$478.8	34,904
2012	\$561.2	40,517
2013	\$625.8	44,119
2014	\$710.9	45,368
2015	\$846.2	51,075
2016	\$939.0	49,135
2017 Actual	\$923.6	47,275
2018 Appropriation	\$975.9	TBD
2019 Appropriation	\$1,003.1	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 6

FY 2019 Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source	Operating Budget		New Case Aides		Attorney General		Inspections Bureau		OCWI		Overtime Pay		Records Retention		Training Resources	
	Budget	Caseworkers	Aides	General	Bureau	OCWI	Pay	Retention	Resources							
AHCCCS	\$9.0	\$2.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
AIPP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPTA	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee IL	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SSBG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B I CWS	1.5	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	0.0	0.0	0.0	0.0	0.0
IV-B II FPCV	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPSS	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-E Adoption	2.9	1.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
IV-E Foster Care	14.0	9.5	0.4	6.3	0.3	0.0	0.9	0.3	0.0	0.0	0.9	0.1	0.0	0.1	9.0	0.0
Over/(Under) Allocated Authority	6.4	10.2	0.2	0.5	0.2	0.1	(1.5)	0.2	0.1	0.1	(1.5)	0.0	0.0	0.0	0.0	0.0
Total	\$35.4	\$33.3	\$0.6	\$6.8	\$0.6	\$0.1	\$1.9	\$0.6	\$0.1	\$0.1	\$1.9	\$0.1	\$0.1	\$0.1	\$9.0	\$9.0

Table 6 (Continued)

FY 2019 Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source	Adoption Services	Congregate Group Care	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	40.0	51.8
AIPP	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8
CAPTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
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	3.3	5.1
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.7
IV-B I CWS	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0
IV-B II FPCV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
IV-B II FPSS	1.5	0.0	0.0	0.0	0.0	0.0	4.3	0.0	0.0	6.5
IV-E Adoption	161.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	165.6
IV-E Foster Care	0.0	34.6	22.4	12.3	0.0	14.1	0.0	0.0	16.2	140.1
Over/(Under) Allocated Authority	2.4	1.0	0.0	0.5	0.1	0.1	1.5	0.0	11.2	32.9
Total	168.9	41.4	22.4	12.8	1.7	14.2	5.8	11.1	71.2	437.5

State Board of Chiropractic Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	196,800	209,700	209,700
Employee Related Expenditures	80,000	94,300	93,300
Professional and Outside Services	45,800	36,800	36,800
Travel - In State	0	1,000	1,000
Travel - Out of State	6,700	9,000	9,000
Other Operating Expenditures	94,700	104,300	79,900
Equipment	27,100	0	0
AGENCY TOTAL	451,100	455,100	429,700 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Chiropractic Examiners Fund	451,100	455,100	429,700
SUBTOTAL - Other Appropriated Funds	451,100	455,100	429,700
SUBTOTAL - Appropriated Funds	451,100	455,100	429,700
TOTAL - ALL SOURCES	451,100	455,100	429,700

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 \$429,700 and 5 FTE Positions from the Board of Chiropractic Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Private Rent Payments

The budget includes a decrease of \$(47,600) from the Board of Chiropractic Examiners Fund in FY 2019 for the removal of private rent payments. The board relocated from private rental space to the 1740 W. Adams state office building in FY 2018. State rent payments are included in the Statewide Adjustments policy issue below.

Shared Services Costs

The budget includes an increase of \$3,400 from the Board of Chiropractic Examiners Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$18,800 from the Board of Chiropractic Examiners Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$11,400 for relocation costs. This appropriation is not displayed in the table above.

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

Citizens Clean Elections Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	7,210,600	19,128,700	19,128,700
TOTAL - ALL SOURCES	7,210,600	19,128,700	19,128,700

AGENCY DESCRIPTION — As authorized by a 1998 ballot initiative, the Citizens Clean Elections Commission 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

CCEC Available Revenues and Expenditures

	FY 2017 <u>Actual</u>	FY 2018 <u>Estimate</u>
Funds Available		
Balance Forward	\$26,318,700	\$26,640,300
Revenue:		
Civil Fine 10% Surcharge	\$ 7,260,700	\$ 7,000,000
\$5 Qualifying Contributions	177,500	200,000
Refunds	87,500	0
Other Fines, Forfeitures, Penalties	6,300	0
\$5 Check Off Box (Repealed)	<u>200</u>	<u>0</u>
Total Revenue	\$ 7,532,200	\$ 7,200,000
Total Funds Available	\$33,850,900	\$33,840,300
Expenditures:		
Personal Services	\$ 543,900	\$ 600,000
Employee Related Expenditures	170,900	185,000
Professional & Outside Services	3,369,300	5,500,000
Travel - In State	7,100	10,000
Travel - Out of State	700	6,000
Candidate Funding	1,844,400	11,317,700
Other Operating Expenses	1,266,600	1,500,000
Equipment	<u>7,700</u>	<u>10,000</u>
Total Funds Expended	\$ 7,210,600	\$19,128,700
Transfer to General Fund	\$ 0	\$ 0
Year-End Fund Balance	\$26,640,300	\$14,711,600

Arizona Commerce Authority

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET	10,000,000	10,000,000	10,000,000 ^{1/}
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	11,500,000	11,500,000	11,500,000 ^{1/}
Mexico City Trade Office	300,000	300,000	300,000
AGENCY TOTAL	21,800,000	21,800,000	21,800,000
FUND SOURCES			
General Fund	21,800,000	21,800,000	21,800,000
SUBTOTAL - Appropriated Funds	21,800,000	21,800,000	21,800,000
Other Non-Appropriated Funds	5,633,100	7,974,600	6,403,600
Federal Funds	1,547,300	1,703,700	1,703,700
TOTAL - ALL SOURCES	28,980,400	31,478,300	29,907,300

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 2019 for the operating budget. This amount is unchanged from FY 2018.

Of the \$10,000,000 FY 2017 operations allocation, ACA expended \$9,720,300 in FY 2017.

Arizona Competes Fund Deposit

The budget includes \$11,500,000 from the General Fund in FY 2019 for deposit into the Arizona Competes Fund. This amount is unchanged from FY 2018.

The Arizona Competes Fund receives an annual appropriation of \$11,500,000 in income tax withholding from the General Fund. Laws 2018, Chapter 283 reduces this deposit to \$5,500,000 starting in FY 2020. Additionally, the fund also receives a non-appropriated deposit of \$3,500,000 in lottery revenues. In total, the fund will receive deposits of \$15,000,000 in FY 2019 and \$9,000,000 in FY 2020 and thereafter. (Please see the FY 2018 Appropriations Report for more information on the history of the Competes Fund deposit.)

At least 30% of monies appropriated to the Arizona Competes Fund are to be used for rural and small business grants. Of this amount, 30%, up to \$1,000,000, is reserved for microenterprise development. Microenterprises are businesses that employ 10 or fewer employees including start-ups, home-based businesses, and self-employed businesses.

A further 25% of the monies are 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.

Laws 2017, Chapter 336 extended the lapsing date for the Arizona Competes Fund to July 1, 2026.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. (Please see Other Issues section for Competes Fund Expenditures by year and list of FY 2018 award recipients.)

^{1/} Pursuant to A.R.S. § 43-409, \$21,500,000 of the state General Fund withholding tax revenues is allocated in FY 2019 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)

Mexico City Trade Office

The budget includes \$300,000 from the General Fund in FY 2019 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2018.

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 FY 2017, ACA utilized \$119,600 in other private and public funding to supplement the General Fund appropriation for the operation of the trade office. Currently, ACA does not fund any other trade offices.

Other Issues

Arizona Competes Fund Grants and Expenditures

ACA made \$71.7 million in commitments and expended \$36.2 million from the Competes Fund from FY 2012 through March 31, 2018. See *Table 1* for expenditures and commitments by fiscal year and *Table 2* for new grants awarded in FY 2018. (For FY 2017 grant recipients, please see the FY 2019 Baseline Book. For a full list of grant recipients prior to FY 2017, please see the FY 2018 Appropriations Report.)

Currently, 3 types of grants are awarded from the fund: 1) Competes Fund grants for 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 for local governments to improve infrastructure and attract businesses.

Table 1
Arizona Compete Fund Commitments and Expenditures by Award Year

<u>Award Year</u>	<u>Commitments</u>	<u>Expenditures</u>
FY 2012	\$ 7,097,000	\$ 6,445,500
FY 2013	7,953,000	7,638,400
FY 2014	10,029,200	7,222,700
FY 2015	10,180,100	6,406,700
FY 2016	6,350,000	3,457,300
FY 2017	13,551,500	4,983,700
FY 2018 ^{1/}	<u>16,550,000</u>	<u>0</u>
Total	\$71,710,800	\$36,154,300

^{1/} Represents commitments and expenditures through March 31, 2018.

Table 2

Arizona Competes Fund: FY 2018 Grant Commitments Through March 31, 2018

<u>Recipients</u>	<u>Commitment</u>
Competes Fund Grants for Expansion/Relocation	
MUFG Union Bank, N.A.	\$ 5,000,000
Bank of the West	3,000,000
Benchmark Electronics, Inc.	1,800,000
Raytheon Company	5,000,000
ZipRecruiter, Inc.	<u>250,000</u>
Total	\$15,050,000
Arizona Innovation Challenge Grants	
GT Medical Technologies Inc.	\$ 250,000
Life365, Inc.	250,000
Paradox, LLC	250,000
Resonea, Inc.	250,000
Renewlogy	250,000
SimpleWan, Inc.	<u>250,000</u>
Total	\$ 1,500,000
Rural Economic Development Grants	
N/A	\$ 0
Total FY 2018 Commitments	\$16,550,000

Arizona Commerce Authority Continuation

Laws 2018, Chapter 66 continues the ACA through July 1, 2024, and requires that ACA maintain 2 FTE Positions dedicated to small businesses and 1 FTE Position dedicated to rural economic development. Chapter 66 also establishes additional requirements for ACA to publish data related to small businesses and rural economic development on its website.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the Arizona Commerce Authority's General Fund costs are projected to decrease by \$(6.0) million in FY 2020 and FY 2021 below FY 2019. These estimates are based on a reduction to the Arizona Competes Fund deposit beginning in FY 2020. (Please see Arizona Competes Fund Deposit for further details.)

Arizona Community Colleges

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	4,670,000	4,589,600	4,677,300
Coconino	1,756,400	1,731,100	1,749,200
Gila	315,200	298,400	324,900
Graham	2,249,700	2,288,300	2,357,900
Mohave	1,315,000	1,195,500	1,152,700
Navajo	1,606,000	1,649,000	1,576,500
Pinal	1,724,700	1,621,400	1,507,800
Santa Cruz	81,200	96,800	84,100
Yavapai	800,200	639,400	589,900
Yuma/La Paz	2,690,100	2,622,100	2,613,500
<i>Subtotal - Operating State Aid</i>	17,208,500	16,731,600	16,633,800
STEM and Workforce Programs State Aid			
Cochise	1,008,200	986,400	1,010,800
Coconino	418,000	409,000	415,600
Gila	142,500	136,500	146,200
Graham	595,200	609,000	634,400
Mohave	505,200	462,500	446,900
Navajo	353,700	369,100	342,600
Pinal	96,500	96,500	96,500
Santa Cruz	61,400	67,000	62,400
Yavapai	774,400	717,000	699,000
Yuma/La Paz	864,000	845,500	843,100
<i>Subtotal - STEM and Workforce Programs State Aid</i>	4,819,100	4,698,500	4,697,500
Equalization Aid			
Cochise	4,878,400	5,210,200	5,848,200
Graham	14,695,800	15,028,600	15,717,800
Navajo	6,081,500	6,672,100	7,107,100
<i>Subtotal - Equalization Aid</i>	25,655,700	26,910,900	28,673,100
Rural County Allocation	2,730,600	2,596,700	2,902,300 ^{1/}
Rural County Reimbursement Subsidy	1,273,800	1,273,800	1,273,800 ^{2/}
Tribal Community Colleges	2,625,000	2,625,000	2,825,000 ^{3/}
Additional Gila Workforce Development Aid	0	250,000	200,000
AGENCY TOTAL	54,312,700	55,086,500	57,205,500^{4/}
FUND SOURCES			
General Fund	54,312,700	55,086,500	57,205,500
SUBTOTAL - Appropriated Funds	54,312,700	55,086,500	57,205,500
Other Non-Appropriated Funds	18,869,500	19,674,400	19,674,400
TOTAL - ALL SOURCES	73,182,200	74,760,900	76,879,900

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 \$16,633,800 from the General Fund in FY 2019 for Operating State Aid. FY 2019 adjustments are as follows:

Enrollment Changes

The budget includes a decrease of \$(97,800) from the General Fund in FY 2019 to fund the statutory formula for Operating State Aid.

This amount funds statutory formula costs for a (127), or (0.4)% decrease in Full Time Student Equivalent (FTSE) students in rural community colleges (see Table 1). The (127) net FTSE decrease consists of a (213) FTSE decrease in non-dual enrollment students and an 86 FTSE increase 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, restored Maricopa and Pima County's eligibility for Operating State Aid in permanent law. A session law provision, however, suspended the formula for FY 2018. Maricopa and Pima County received no Operating State Aid in FY 2018. The FY 2019 Higher Education BRB (Laws 2018, Chapter 281) continues to suspend Maricopa and Pima funding in FY 2019.

The full formula funding for Maricopa and Pima County cannot be calculated for FY 2019. 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 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

- 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 2019, that amount is estimated to be \$2,902,300. 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 2016 FTSE	FY 2017 FTSE	Percentage Change
Cochise	6,195	6,353	2.6%
Coconino	2,007	2,048	2.0%
Gila	667	735	10.2%
Graham	2,951	3,075	4.2%
Mohave	2,347	2,270	(3.3)%
Navajo	1,940	1,827	(5.8)%
Pinal	3,900	3,688	(5.4)%
Santa Cruz	319	298	(6.6)%
Yavapai	3,585	3,498	(2.4)%
Yuma/La Paz	5,313	5,305	(0.2)%
Total	29,224	29,097	(0.4)%

aid in an amount that reflects changes in the FTSE enrollment count. This enrollment adjustment is calculated by multiplying the change in the most recent year's actual FTSE for each district by the average state aid per FTSE appropriated in the current fiscal year. (For FY 2019, the last actual FTSE data was from FY 2017.)

STEM and Workforce Programs State Aid

The budget includes \$4,697,500 from the General Fund in FY 2019 for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). FY 2019 adjustments are as follows:

Enrollment Changes

The budget includes a decrease of \$(1,000) from the General Fund in FY 2018 to fund reduced formula costs for 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 (Laws 2017, Chapter 310) restored 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 suspended the program's funding formula for FY 2018 and instead funded the amounts specified in the General Appropriation Act.

The FY 2019 Higher Education BRB 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 \$672,600. If the formula were fully funded, Maricopa would receive \$11,149,000 and Pima would receive \$2,350,200 in FY 2019.

Background – The STEM and Workforce Programs State Aid 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 \$28,673,100 from the General Fund in FY 2019 for Equalization Aid. FY 2019 adjustments are as follows:

Property Value Changes

The budget includes an increase of \$1,762,200 from the General Fund in FY 2019 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 2019 Equalization Funding Changes

District	FY 2018	Year-over- Year Change	FY 2019
Cochise	\$ 5,210,200	\$ 638,000	\$ 5,848,200
Graham	15,028,600	689,200	15,717,800
Navajo	6,672,100	435,000	7,107,100
Total	\$26,910,900	\$1,762,200	\$28,673,100

Background – The Equalization Aid 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 2019 Equalization Aid formula calculation, the minimum assessed valuation increased 3.9% to \$1.34 billion. (See *Table 3* for the calculation of the growth rate.)

Table 3

Equalization Growth Factor for Tax Years (TY) 2016-2017

District	TY 2016 Primary AV	TY 2017 Primary AV	TY 2016- 2017 % Growth
Cochise*	\$ 909,774,000	\$ 913,002,900	0.4%
Graham*	193,098,400	192,589,700	(0.3)%
Navajo*	803,062,500	821,107,800	2.2%
Coconino	1,569,812,800	1,648,531,000	5.0%
Mohave	1,696,200,000	1,739,751,600	2.6%
Pinal	2,119,750,900	2,239,027,300	5.6%
Yavapai	2,344,409,900	2,463,150,000	5.1%
Yuma/LaPaz	1,316,941,500	1,358,691,500	3.2%
Total	\$10,953,050,000	\$11,375,851,800	3.9%
Minimum AV	\$1,290,079,600	\$1,339,876,700	3.9%

* 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 3.9%, in TY 2017. In comparison, Cochise increased by 0.4%, Graham declined by (0.3)%, and Navajo increased by 2.2%. Because their primary assessed value increased by less than the average rural 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 (\$1.34 billion in FY 2019), 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 \$2,902,300 from the General Fund in FY 2019 for Rural County Allocation. FY 2019 adjustments are as follows:

Enrollment Increase

The budget includes an increase of \$305,600 from the General Fund in FY 2019 to fund increased student enrollment.

Background – The Rural County Allocation 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 2018, the JLBC Staff reported the amount to be \$2,902,300 for FY 2019.

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 2019 for Rural County Reimbursement Subsidy. This amount is unchanged from FY 2018.

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 budget allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The budget includes \$2,825,000 from the General Fund in FY 2019 for Tribal Community Colleges. FY 2019 adjustments are as follows:

Tohono O'Odham Funding

The budget includes an increase of \$200,000 from the General Fund in FY 2019 for Tohono O'Odham Community College.

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 2019 will depend on FY 2019

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 already qualify for the funding. Tohono O'Odham entered into a compact with the Executive in 2017, so now also qualifies.

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 2019. 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 2019. The budget also assumes that \$200,000 will be distributed to Tohono O'Odham Community College.

Additional Gila Workforce Development Aid

The budget includes \$200,000 for Additional Gila Workforce Development Aid in FY 2019. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(50,000) from the General Fund in FY 2019 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 FY 2018 budget provided General Fund money for this purpose. Of the \$250,000, \$50,000 was labeled as one-time. The FY 2018 budget's 3-year spending plan included \$200,000 for Gila County in FY 2019 and FY 2020.

Table 4

Total Estimated Community College Revenues – FY 2018

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other ^{1/}	FY 2018 Total ^{2/}	FY 2017 Total ^{3/}	% Change from FY 2017
Cochise	\$10,786,200	\$8,821,400	\$21,670,100	\$13,683,000	\$1,162,900	\$56,123,600	\$51,698,500	8.6%
Coconino	2,140,100	7,988,800	10,124,300	6,713,800	1,001,300	27,968,300	25,636,800	9.1%
Gila ^{4/}	434,900	-	4,511,900	130,000	375,000	5,451,800	5,353,500	1.8%
Graham	17,925,900	8,249,600	6,044,000	9,391,000	9,835,500	51,446,000	45,581,800	12.9%
Maricopa	-	254,264,900	539,211,600	229,517,300	28,444,600	1,051,438,400	999,793,000	5.2%
Mohave	1,658,000	7,958,300	23,364,900	8,314,300	845,000	42,140,500	41,554,300	1.4%
Navajo	8,690,200	4,800,000	14,835,000	6,030,900	2,559,100	36,915,200	35,504,600	4.0%
Pima	-	48,178,000	112,161,200	52,684,000	5,308,800	218,332,000	198,668,400	9.9%
Pinal	1,717,900	13,545,000	56,937,000	25,700,000	1,780,000	99,679,900	91,367,300	9.1%
Santa Cruz ^{4/}	163,800	900	1,583,000	24,900	17,500	1,790,100	1,812,300	(1.2)%
Yavapai	1,356,400	10,746,500	48,614,300	13,098,500	4,185,800	78,001,500	76,388,600	2.1%
Yuma/La Paz	<u>3,467,600</u>	<u>14,062,900</u>	<u>35,611,800</u>	<u>19,154,500</u>	<u>5,567,200</u>	<u>77,864,000</u>	<u>79,787,000</u>	<u>(2.4)%</u>
Total	\$48,341,000	\$378,616,300	\$874,669,100	\$384,442,200	\$61,082,700	\$1,747,151,300	\$1,653,146,100	5.7%

^{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 \$2,150,583,100 for FY 2018.

^{3/} Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are \$1,729,783,600 for FY 2017.

^{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.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the Arizona Community College General Fund costs are projected to increase by \$1,084,500 in FY 2020 above FY 2019 and \$1,248,500 in FY 2021 above 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.
- Gila Community College Workforce Development aid remains at \$200,000 for FY 2020 and FY 2021.
- An increase of \$1,084,500 for Equalization Aid in FY 2020 and \$1,248,500 in FY 2021. These estimates assume 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.

Additional Legislation
Course Prerequisite Ban

As permanent law, the FY 2019 Higher Education BRB prohibits community colleges from requiring a student to be a member of a labor organization or participating in an industry apprenticeship program as a prerequisite for course enrollment.

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 2.8% of their revenues (excluding bond proceeds) from state aid.

For FY 2018, base operating revenues from all sources are estimated to be \$1,747,151,300, which would be an increase of 5.7% from FY 2017. (See Table 4 for a summary of FY 2018 total revenue estimates.)

Property taxes are the single largest revenue source for the community colleges, accounting for 50.1% 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. Both taxes are levied on limited property values. Each community college district determines its primary and secondary property tax rates. (See Table 5 for a summary of FY 2018 property tax rates.)

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2017
Cochise	\$2.37	\$0.00	\$2.37	3.8 %
Coconino	0.48	0.13	0.61	(1.2) %
Gila	0.94	0.00	0.94	7.2 %
Graham	3.14	0.00	3.14	2.0 %
Maricopa	1.20	0.21	1.41	(3.8) %
Mohave	1.34	0.00	1.34	1.1 %
Navajo	1.81	0.00	1.81	1.0 %
Pima	1.39	0.00	1.39	1.1 %
Pinal	2.23	0.31	2.54	(3.2) %
Santa Cruz	0.50	0.00	0.50	(0.6) %
Yavapai	1.78	0.20	1.98	(3.6) %
Yuma/La Paz	2.26	0.23	2.49	(5.3) %

In 2012, Proposition 117 capped annual property value increases on any single parcel of real property to 5% starting in FY 2016 (see the FY 2017 Appropriations Report for more information). The existing 2% “levy limit” remains in place. Under A.R.S. § 42-17051, community colleges are allowed to collect 2% more in property tax revenues annually, not including revenue from new construction.

Any increase over 2% requires voter approval, unless the district has foregone increases in prior years and consolidates those increases into a single year.

As permanent law, the FY 2019 Higher Education BRB allows Coconino County to increase its primary property tax levy, subject to approval by voters.

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 21.7% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2018 weighted average tuition (weighted for each district’s proportion of the statewide FTSE count) is \$2,547 if a full-time student attends for 30 hours a year. The FY 2018 amount represents an increase of 0.1% from FY 2017. (See Table 6 for FY 2018 resident tuition and fee rates.)

Community colleges also receive grants and “other” revenue from a variety of sources. Combined, they account for approximately 25.5% of community college revenues. Grants traditionally come from the federal government, including: the U.S. Department of Education, Small Business Administration, National Science

**Table 6
Community College Resident Tuition and Fees – FY 2018**

District	Cost Per Credit Hour	Annual Cost ^{1/}	% Change from FY 2017
Cochise	\$82	\$2,460	3.8%
Coconino	105	3,150	2.9%
Gila	85	2,550	6.3%
Graham	85	2,550	6.3%
Maricopa	86	2,580	0.0%
Mohave	81	2,430	(8.0)%
Navajo	72	2,160	2.9%
Pima	82	2,445	(4.1)%
Pinal	86	2,580	2.4%
Santa Cruz	82	2,445	3.2%
Yavapai	83	2,490	5.1%
Yuma/La Paz	82	2,460	2.5%
Weighted Average	\$85	\$2,547	0.1%

^{1/} Annual cost is for 30 hours a year, or 15 hours per semester.

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 2018 community college expenditures. In FY 2018, total budgeted expenditures are \$2,150,583,100. As mentioned previously, base operating revenues for FY 2018 are \$1,747,151,300; however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are \$2,150,583,100. Of the total \$2,150,583,100 in budgeted expenditures, \$1,615,236,000, or 75%, of these expenditures are from the community colleges’ General and Restricted Funds. This includes about \$494,087,200, or 23%, for instruction and \$274,939,500, 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 \$163,549,200, or 8% of the total. Plant Fund expenditures, which generally include capital costs, are \$180,772,300, or 8% of the total. The remaining \$191,025,500 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. (See FY 2018 Appropriations Report for more information.)

Table 7**Community Colleges - FY 2018 Budgeted Expenditures**

<u>General/Restricted Funds</u>	<u>Total</u>	<u>% of Total</u>
Instruction	\$494,087,200	23%
Public Service	38,479,400	2%
Academic Support	160,128,500	7%
Student Services	166,531,600	8%
Institutional Support	274,939,500	13%
Operation & Maintenance	111,693,300	5%
Scholarships/Grants	283,966,300	13%
Contingency	<u>85,410,300</u>	<u>4%</u>
Subtotal	\$1,615,236,100	75%
Auxiliary Enterprises Fund	\$ 163,549,200	8%
Plant Fund	180,772,300	8%
Debt Service	<u>191,025,500</u>	<u>9%</u>
Total	\$2,150,583,100	100%

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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	298,300	445,400	445,400
TOTAL - ALL SOURCES	298,300	445,400	445,400

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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	105.6	105.6	105.6
Personal Services	4,690,900	5,670,600	5,670,600
Employee Related Expenditures	1,838,300	2,399,400	2,366,200
Professional and Outside Services	388,900	405,300	405,300
Travel - In State	246,400	301,000	301,000
Travel - Out of State	2,000	11,800	11,800
Other Operating Expenditures	914,200	1,945,700	2,010,600
Equipment	92,600	517,000	517,000
OPERATING SUBTOTAL	8,173,300	11,250,800	11,282,500
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	322,900	1,017,600	1,017,600
AGENCY TOTAL	8,496,200	12,268,400	12,300,100 ^{1/}

FUND SOURCES

Other Appropriated Funds

Registrar of Contractors Fund	8,496,200	12,268,400	12,300,100
SUBTOTAL - Other Appropriated Funds	8,496,200	12,268,400	12,300,100
SUBTOTAL - Appropriated Funds	8,496,200	12,268,400	12,300,100
Other Non-Appropriated Funds	2,216,600	4,666,800	4,666,800
TOTAL - ALL SOURCES	10,712,800	16,935,200	16,966,900

AGENCY DESCRIPTION — The agency licenses, regulates and conducts examinations of residential and commercial construction contractors.

Operating Budget

The budget includes \$11,282,500 and 105.6 FTE Positions from the Registrar of Contractors Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$31,700 from the Registrar of Contractors Fund in FY 2019 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 2019 for Office of Administrative Hearings (OAH) Costs. This amount is unchanged from FY 2018.

Monies in this line item are transferred from the Registrar of Contractors to OAH for services provided by OAH.

Other Issues

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Residential Contractors' Recovery Fund	\$0	\$4,000,000

Additional Legislation

Prime Contracting Noncompliance Study

Laws 2018, Chapter 305 appropriates \$75,000 from the Residential Contractors' Recovery Fund in FY 2019 to the Department of Revenue for an independent study of noncompliance rates with statutory prime contracting requirements. *(Please see the Department of Revenue narrative for more information.)*

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

Corporation Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9 ^{1/}
Personal Services	15,738,200	15,905,400	15,905,400
Employee Related Expenditures	5,854,100	6,183,600	6,200,300
Professional and Outside Services	631,900	1,049,900	1,049,900
Travel - In State	166,700	225,000	225,000
Travel - Out of State	106,100	151,000	151,000
Other Operating Expenditures	2,907,000	2,695,700	2,989,100
Equipment	327,600	282,000	282,000
OPERATING SUBTOTAL	25,731,600	26,492,600	26,802,700
SPECIAL LINE ITEMS			
Corporation Filings, Same-Day Service	0	401,300	401,200 ^{2/}
Corporations Division Database Upgrade	250,000	0	0
Railroad Safety Inspectors	0	0	196,600 ^{3/}
Utilities Audits, Studies, Investigations & Hearings	0	380,000	380,000 ^{4/}
AGENCY TOTAL	25,981,600	27,273,900	27,780,500 ^{5/6/}
FUND SOURCES			
General Fund	859,600	621,500	814,600
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	47,000	51,600	50,700
Investment Management Regulatory and Enforcement Fund	666,600	717,500	714,700
Public Access Fund	6,555,300	6,638,100	6,713,000
Securities Regulatory and Enforcement Fund	4,325,200	4,969,300	5,038,200
Utility Regulation Revolving Fund	13,527,900	14,275,900	14,449,300
SUBTOTAL - Other Appropriated Funds	25,122,000	26,652,400	26,965,900
SUBTOTAL - Appropriated Funds	25,981,600	27,273,900	27,780,500
Federal Funds	1,032,700	825,000	825,000
TOTAL - ALL SOURCES	27,014,300	28,098,900	28,605,500

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 2019.

^{2/} The \$401,200 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 2019 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/} Laws 2018, Chapter 333 appropriated \$196,600 from the General Fund for the purpose of funding 2 Railroad Safety Inspectors.

^{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/} On or before August 1, 2018, the Corporation Commission shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting the total expenditures from the Small Drinking Water Systems Fund established by A.R.S. § 49-355 in FY 2018 for grants to interim operators of small drinking water systems. (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 \$26,802,700 and 298.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$618,000
Arizona Arts Trust Fund	50,700
Investment Management Regulatory and Enforcement Fund	714,700
Public Access Fund	6,311,800
Securities Regulatory and Enforcement Fund	5,038,200
Utility Regulation Revolving Fund	14,069,300

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$310,100 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(3,500)
Arizona Arts Trust Fund	(900)
Investment Management Regulatory and Enforcement Fund	(2,800)
Public Access Fund	75,000
Securities Regulatory and Enforcement Fund	68,900
Utility Regulation Revolving Fund	173,400

(Please see the Agency Detail and Allocations section.)

Corporation Filings, Same-Day Service

The budget includes \$401,200 and 2 FTE Positions from the Public Access Fund in FY 2019 for Corporation Filings, Same-Day Service. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(100) from the Public Access Fund in FY 2019 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.

Railroad Safety Inspectors

Laws 2018, Chapter 333 appropriates \$196,600 of one-time funding from the General Fund in FY 2019 for 2 railroad safety inspector positions. Railroad safety inspectors are responsible for inspecting rail track and rail crossings throughout the state for safety and compliance with state laws.

Utilities Audits, Studies, Investigations & Hearings

The budget includes \$380,000 from the Utility Regulation Revolving Fund in FY 2019 for Utilities Audits, Studies, Investigations & Hearings. This amount is unchanged from FY 2018.

Monies in this line item allow the commission to hire outside consultants to provide professional expertise and advice to the Utilities Program staff.

Other Issues

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Pipeline Safety Revolving Fund	\$0	\$100,000

Additional Legislation

Pipeline Safety Revolving Fund Repeal

The FY 2019 Budget Procedures Budget Reconciliation Bill (Laws 2018, Chapter 279) eliminates the Pipeline Safety Revolving Fund and transfers the remaining balance to the General Fund. The budget assumes this transfer amount to be \$100,000.

State Department of Corrections

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9,541.0	9,541.0	9,556.0 ^{1/}
Correctional Officer Personal Services	312,727,800	325,152,600	317,702,500
Health Care Personal Services	2,684,900	2,719,600	2,719,600
All Other Personal Services	63,332,400	63,450,900	62,607,300
Personal Services Subtotal	378,745,100	391,323,100	383,029,400
Employee Related Expenditures	190,095,100	226,772,200	240,565,300
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	44,742,900	15,543,400	15,302,300
Health Care All Other Operating Expenditures			
Professional and Outside Services	1,350,400	1,913,200	1,913,200
Travel - In State	21,800	20,000	20,000
Travel - Out of State	7,700	10,000	10,000
Other Operating Expenditures	611,400	618,700	618,700
Equipment	4,300	15,000	15,000
Health Care Operating Subtotal	1,995,600	2,576,900	2,576,900
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	7,937,100	7,484,700	4,601,400
Travel - In State	302,300	297,700	232,700
Travel - Out of State	69,600	119,700	108,700
Food	38,502,500	41,067,300	41,067,300
Other Operating Expenditures	107,960,500	111,283,300	111,260,500
Equipment	4,821,700	4,677,800	5,082,900
Non-Health Care Operating Subtotal	159,593,700	164,930,500	162,353,500
OPERATING SUBTOTAL	775,172,400	801,146,100	803,827,400
SPECIAL LINE ITEMS			
Community Corrections	0	0	19,584,200
Radio Equipment	2,728,000	0	0
Private Prison Per Diem	145,992,800	169,220,200	166,409,800 ^{2/}
Inmate Health Care Contracted Services	134,979,100	148,811,700	163,811,700 ^{3/}
Named Claimants	6,900	16,600	0
AGENCY TOTAL	1,058,879,200	1,119,194,600	1,153,633,100 ^{4/-9/}
FUND SOURCES			
General Fund	1,028,851,400	1,067,641,400	1,099,670,000
Other Appropriated Funds			
Alcohol Abuse Treatment Fund	311,400	555,500	555,500
Corrections Fund	19,424,700	30,312,300	30,312,300
Inmate Store Proceeds Fund	0	386,300	1,340,400
Penitentiary Land Fund	979,300	2,062,500	2,507,400 ^{10/}
Prison Construction and Operations Fund	5,022,000	12,500,000	12,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,459,400	2,661,500	3,079,500 ^{11/}
State Education Fund for Correctional Education	609,900	675,000	727,900 ^{12/}
Transition Program Fund	2,221,100	2,400,100	2,940,100
SUBTOTAL - Other Appropriated Funds	30,027,800	51,553,200	53,963,100
SUBTOTAL - Appropriated Funds	1,058,879,200	1,119,194,600	1,153,633,100

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
Other Non-Appropriated Funds	53,499,100	59,026,500	59,026,500
Federal Funds	7,848,300	8,773,000	8,480,000
TOTAL - ALL SOURCES	1,120,226,600	1,186,994,100	1,221,139,600

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

Arizona Department of Corrections (ADC)'s General Fund spending increases by \$32,028,600 or 3.0% in FY 2019 for:

- \$26,506,600 for the employer rate contribution increase.
- \$15,000,000 for the inmate health care contract adjustment.
- \$(6,651,000) for statewide adjustments.
- \$(2,810,400) for vacancy reduction savings.
- \$(16,600) for named claimants.

Operating Budget

The budget includes \$803,827,400 and 9,372 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$793,256,400
Alcohol Abuse Treatment Fund	437,500
Corrections Fund	3,000,800
Inmate Store Proceeds Fund	1,340,400
Penitentiary Land Fund	444,900
Prison Construction and Operations Fund	2,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,579,500

- 1/ Includes 184 GF FTE Positions funded from Special Line Items in FY 2019.
- 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/ Of the amount appropriated for the Private Prison Per Diem line item, \$17,463,400 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)
- 4/ Before placing any inmates in out-of-state provisional beds, the department shall place inmates in all available prison beds in facilities that are located in this state and that house Arizona inmates, unless the out-of-state provisional beds are of a comparable security level and price. (General Appropriation Act footnote)
- 5/ The State Department of Corrections shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing department expenditures for the month and year-to-date as compared to prior-year expenditures on or before the 30th of the following month. The report shall be in the same format as the prior fiscal year and include an estimate of potential shortfalls, potential surpluses that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 6/ On or before August 1, 2018, 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, 2017 and June 30, 2018 and the projected capacity for June 30, 2019, 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)
- 7/ On or before August 1, 2018, the State Department of Corrections shall transfer to the Public Safety Personnel Retirement System via the Arizona Department of Administration its estimated required annual contribution to the Corrections Officer Retirement Plan for FY 2019. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 9/ 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)
- 10/ 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)
- 11/ Before the expenditure of any State Education Fund for Correctional Education monies in excess of \$727,900, 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)

State Education Fund for Correctional Education	727,900
Transition Program Fund	540,000

FY 2019 adjustments are as follows:

Retirement Adjustment

The budget includes an increase of \$25,970,300 in FY 2019 for employer retirement contribution rate increases. This amount consists of:

General Fund	25,915,700
State Education Fund for Committed Youth	54,600

In FY 2019, the ADC employer contribution rate for the Corrections Officer Retirement Plan will rise from 21.17% to 28.38%. Additionally, the adjustment includes monies for the statewide increase in the Arizona State Retirement System rate. *(Please see the Consolidated Retirement Report for more information.)*

Inmate Education

The budget includes an increase of \$1,372,100 and 10 FTE Positions in FY 2019 to aid inmates in completing their high school diploma, receiving a GED, and literacy goals. This amount consists of:

Inmate Store Proceeds Fund	954,100
State Charitable, Penal and Reformatory Institutions Land Fund	418,000

The monies fund the addition of 1 administrator position and 9 teacher positions. Of this amount, the \$418,000 from the State Charitable, Penal and Reformatory Institutions Land Fund is a one-time appropriation for equipment. Of the 18,964 inmates released in FY 2017, 13.7% did not have a GED or high school diploma. The additional staff will be used to reduce this number.

Substance Abuse Treatment Expansion

The budget includes an increase of \$540,000 from the Transition Program Fund in FY 2019 for one-time equipment costs associated with expanding the substance abuse staff to treat inmates.

ADC will use \$1,200,000 from the non-appropriated Special Services Fund to increase staffing by 15 FTE Positions. Approximately 82% of the 18,964 inmates released in 2017 were assessed as needing substance abuse treatment. The previous amount of resources met 14% of this need.

Employment Center Expansion

The budget includes an increase of \$444,900 and 5 FTE Positions from the Penitentiary Land Fund in FY 2019 to

increase the capacity in reentry units that assist offenders in obtaining post-release employment.

The monies fund the addition of 4 correctional officers and an administrative position. The staffing increase allows the department to increase the daily capacity of the Lewis Employment Center from 100 to 275 inmates and the Perryville Employment Center from 40 to 60 inmates.

New Community Corrections Line Item

The budget includes a decrease of \$(18,862,300) and (184) FTE Positions in FY 2019 to create a new line item for community corrections. This amount consists of:

General Fund	(16,344,200)
Alcohol Abuse Treatment Fund	(118,000)
Transition Program Fund	(2,400,100)

(Please see Community Corrections narrative below.)

Statewide Adjustments

The budget includes a decrease of \$(6,783,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(6,782,000)
State Education Fund for Correctional Education	(1,700)

(Please see the Agency Detail and Allocations section.)

The FY 2019 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 278) continues to require the department to report actual FY 2018, FY 2019, and requested FY 2020 expenditures as delineated in the prior year when the department submits its FY 2020 budget request.

Community Corrections

The budget includes \$19,584,200 and 184 FTE Positions in FY 2019 for a new Community Corrections line item. This amount consists of:

General Fund	17,066,100
Alcohol Abuse Treatment Fund	118,000
Transition Program Fund	2,400,100

FY 2019 adjustments are as follows:

New Community Corrections Line Item

The budget includes an increase of \$18,862,300 and 184 FTE Positions in FY 2019 to create a new line item for community corrections. This amount consists of:

General Fund	16,344,200
Alcohol Abuse Treatment Fund	118,000
Transition Program Fund	2,400,100

Retirement Adjustment

The budget includes an increase of \$590,900 from the General Fund in FY 2019 for employer retirement contribution rate increases.

Statewide Adjustments

The budget includes an increase of \$131,000 from the General Fund in FY 2019 for statewide adjustments.

Background – Monies in this line item are used to monitor offenders on community supervision or parole, operate 2 reentry centers, pay for the Transition Program, coordinate with other state parole offices, and provide electronic monitoring for certain offenders. In addition to the \$19,584,200 in appropriated funds, ADC utilizes an additional \$4,682,100 in non-appropriated funds for these activities.

As of June 11, 2018, ADC has responsibility for 5,265 offenders overseen by community correctional officers. The majority of offenders are released after serving 85% of their sentence and serve a period under community supervision. A very small number of offenders sentenced prior to January 1, 1994 are released on parole at the discretion of the Board of Executive Clemency.

The monies in this line item pay for:

- **Operating Budget:** The majority of the line item funds the staffing costs for correctional officers that oversee offenders on community supervision and staffing for the Reentry Centers. The department also uses the appropriated monies for vendors for drug testing, behavioral needs testing, and other programming. ADC utilizes additional non-appropriated monies for these costs as well.
- **Transition Program:** Offenders that meet statutory considerations and behavioral standards may be released 90 days prior to their community supervision release date and participate in the Transition Program. Participants reside in homes or half-way houses across the state, and receive substance abuse counseling and case management services. This program is funded by a share of inmate wages and a transfer of liquor taxes that are deposited in the Transition Program Fund based on the number of bed days served by participants in a quarter. The \$2,400,100 included in the community corrections line item is dedicated to this programming. Laws 2018, Chapter 344 expanded the Transition Program to include certain inmates with possession

charges for marijuana, a dangerous drug, a narcotic drug, or drug paraphernalia. *(For more information, please see Additional Legislation in Other Issues section.)*

- **Reentry Centers:** If offenders violate the terms of supervision, they may be returned to custody to serve out the remainder of their term. As an alternative to immediate return to custody, ADC operates the Maricopa Reentry Center (MRC) and the Pima Reentry Center (PRC) that provide an intensive treatment program for inmates and sanctions beds. At the Pima facility, ADC also houses homeless offenders that do not have a secure placement. ADC does not delineate the actual operating expenditures for the 2 reentry centers. The Legislature funded the Maricopa facility at a cost of \$1,800,000 in appropriated monies in the FY 2017 budget and appropriated an additional \$517,900 in FY 2018 for additional staff for substance abuse at the reentry center and reentry counseling.

Named Claimants

The budget includes no funding for FY 2019 for Named Claimants.

Remove One-Time Funding

The budget includes a decrease of \$(16,574.93) from the General Fund in FY 2019 for the elimination of one-time funding. *(Please see the Named Claimants section in ADOA Other Issues.)*

Private Prison Per Diem

The budget includes \$166,409,800 in FY 2019 for Private Prison Per Diem. This amount consists of:

General Fund	137,035,800
Corrections Fund	27,311,500
Penitentiary Land Fund	2,062,500

FY 2019 adjustments are as follows:

Private Prison Capacity Cap

The budget includes a decrease of \$(2,810,400) from the General Fund in FY 2019 to reduce the number of prisoners placed in private prisons.

ADC will see savings by eliminating the use of 210 temporary beds at ASP-Kingman and 60 beds at ASP-Red Rock.

Background – This line item funds payments to private prison contractors for housing and providing medical care to Arizona inmates in 8,538 beds. Administrative

expenses related to monitoring private prison contracts are included in the department's operating budget.

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' purchase cost. Two private prison contracts (Marana and Kingman) are solely for management services. The state owns the Marana facility outright. The Kingman facility is being lease-purchased by the state. In order to more accurately display the level of spending related to private prison facilities, the \$17,463,400 debt service amount paid by the state is shown in the Private Prison Per Diem line item rather than in the department's operating budget.

Inmate Health Care Contracted Services

The budget includes \$163,811,700 in FY 2019 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	152,311,700
Prison Construction and Operations Fund	10,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

FY 2019 adjustments are as follows:

Inmate Health Care Adjustment

The budget includes an increase of \$15,000,000 from the General Fund in FY 2019 for an increase to the per diem.

At the time of the budget's submission, ADC was evaluating bids for a new 5-year contract with 1-5 year renewal. The budget included a \$15,000,000 adjustment for a new contract set to begin on June 1, 2018.

On May 7, 2018, ADC signed a 1-year renewal contract with the current vendor at a rate of \$15.164. The department issued a new request for proposals, and has requested that proposals be submitted by August 15, 2018 with the evaluation to be completed by early January 2019.

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$15.164 as of July 1, 2018. The line item funds the costs of the contract; ADC expenditures for monitoring the contracted services are included within the department's operating budget. A footnote continues to require review of any changes to the per diem. The current contract can be amended for changes to scope, and the vendor may request adjustments for inflation. The department recovers up \$10,784,500 of Medicaid savings annually for Medicaid reimbursement of the costs

of outside health care that also can be utilized for this line item.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2018 Supplemental
- Fund Transfers
- Additional Legislation
- 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 decrease by \$(3.1) million in FY 2020 below FY 2019 and \$0 in FY 2021 below FY 2020.

This estimate assumes ongoing lease-purchase savings of \$(3.1) million in FY 2020 associated with the elimination of a debt payment for the refinancing of debt from FY 2004 to pay for debt issued to increase the prison capacity by a total of 1,000 beds at the following facilities: ASPC - Douglas, ASPC - Perryville, and ASPC – Tucson.

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation of \$16,574.93 from the General Fund for one-time supplemental named claimants appropriation.

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
ARCOR Revolving Fund	\$0	\$1,500,000
Building Renewal Fund	0	500,000
Corrections Fund	0	1,500,000
Indirect Cost Recovery Fund	0	500,000
Special Services Fund	1,000,000	25,200

Additional Legislation

Expansion of Transition Program

Laws 2018, Chapter 344 expands the Transition Program to include inmates convicted of the possession or use of

marijuana, a dangerous drug, a narcotic drug, or drug paraphernalia and who are not serving a concurrent sentence. This law defines distinct qualifying conditions for eligible offenders. Increased participation in the Transition Program is expected.

Special Services Fund

Laws 2018, Chapter 198 expands the fund's uses to include the implementation, operation, and maintenance of technology programs for inmate use and broadens the revenue source of the fund to include monies generated by inmate use of technology, including telephones, kiosks and tablets.

County Sheriff Reentry Planning

Laws 2018, Chapter 342 provides \$500,000 from the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2019, FY 2020, and FY 2021 for Yavapai County to administer reentry (diversion) planning services for offenders under the custody of the sheriff. (Please see County Funding narrative for more information.)

Bed Capacity Issues

Inmate Growth Rate

On June 30, 2017, the total inmate population was 42,200. This is a decrease of (702) inmates since the June 30, 2016 population of 42,902. Table 1 shows the recent year-end population at the end of FY 2017.

<u>Year</u>	<u>Population</u>
FY 2013	40,686
FY 2014	41,773
FY 2015	42,611
FY 2016	42,902
FY 2017	42,200

The FY 2019 budget assumes the inmate population will remain flat at the June 2017 level of 42,200 until FY 2021.

As of June 11, 2018, the current population is 41,071.

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 39,275 public and private prisons on June 30, 2017, an increase of 1,142 from the 38,133 on June 30, 2016. This was due to an increase beds of 1,000 beds at Red Rock in FY 2017 and the reopening of beds at

ASPC - Douglas. The department projects a decrease of (620) rated beds in FY 2018 and FY 2019 due to the closure of 3 units at ASPC - Douglas.

- 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. During FY 2017, the department increased its total operating capacity by 564 beds, from 44,009 to 44,573. As of June 30, 2017, public and private prisons have a total of 5,298 temporary beds, a decrease from 5,876 as of June 30, 2016. The department projects 5,298 temporary beds in use at the end of FY 2018 as shown on Table 3 for a total operating capacity of 43,953. The projected operating capacity for FY 2019 is expected to remain the same at 43,953.

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 1,724 as of June 30, 2017, 32 beds more than on June 30, 2016.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification) as discussed in this section. A 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

At the end of FY 2017, the department had a total rated bed shortfall of (2,925). After adjusting for the 5,298 temporary beds in the overall ADC system, the rated bed shortfall became a 2,373-bed surplus as shown in Table 3.

The department projects a total rated bed shortfall of (3,545) for FY 2018. After adjusting for temporary beds, the shortfall becomes a 1,753-bed surplus as shown in Table 3.

Assuming no growth from FY 2018 to FY 2020, the rated bed shortfall and operating capacity is projected to be the same in FY 2019 and FY 2020.

Bed shortfall estimates vary by level of security (e.g. minimum, medium, or maximum), and by gender. There would be an overall male custody beds surplus of 1,546

beds, with a surplus at every custody level as shown in Table 2.

During FY 2016 and FY 2017 as described in the Bed Capacity section and the annual report, ADC closed 620 permanent beds, reallocated beds to different custody levels, and eliminated the use of temporary beds. The department may be able to use temporary beds, reopen beds, or reallocate beds to meet unanticipated growth.

<u>Custody</u>	<u>FY 2018 - FY 2020</u>
Minimum	475
Medium	365
Close	381
Maximum	<u>325</u>
Total	1,546

State	FY 2017 Actual			FY 2018 Estimate			FY 2019 Estimate		
	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity
Douglas	2,055	343	2,398	1,435	343	1,778	1,435	343	1,778
Eyman	3,976	1,527	5,503	3,976	1,527	5,503	3,976	1,527	5,503
Florence	3,440	645	4,085	3,440	645	4,085	3,440	645	4,085
Perryville	4,214	36	4,250	4,214	36	4,250	4,214	36	4,250
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	160	1,613	1,453	160	1,613	1,453	160	1,613
Tucson	4,605	493	5,098	4,605	493	5,098	4,605	493	5,098
Winslow	1,626	-	1,626	1,626	-	1,626	1,626	-	1,626
Yuma	4,350	420	4,770	4,350	420	4,770	4,350	420	4,770
Subtotal	31,375	4,660	36,035	30,755	4,660	35,415	30,755	4,660	35,415
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 (\$47.44)	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 (\$65.89) <u>1/</u>	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Eloy II (\$65.89) <u>1/</u>	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Subtotal <u>2/</u>	7,900	638	8,538	7,900	638	8,538	7,900	638	8,538
Total - All Beds <u>3/</u>	39,275	5,298	44,573	38,655	5,298	43,953	38,655	5,298	43,953
State Prison Population	33,924		33,924	33,924		33,924	33,924		33,924
Female	4,063		4,063	4,063		4,063	4,063		4,063
Male	29,861		29,861	29,861		29,861	29,861		29,861
Private Prison Population									
Male	8,276		8,276	8,276		8,276	8,276		8,276
Total Population <u>4/</u>	42,200		42,200	42,200		42,200	42,200		42,200
Bed Surplus/(Shortfall)	(2,925)		2,373	(3,545)		1,753	(3,545)		1,753
Male	(3,096)		2,166	(3,716)		1,546	(3,716)		1,546
Female	171		207	171		207	171		207
Bed Surplus/(Shortfall) (% of Beds)	-7%		5%	-9%		4%	-9%		4%

1/ ADC signed amendment consolidating 2,000 beds into one contract with a \$65.89 per diem.
2/ The base rate for the private (per diem) bed rate for each facility is listed. ADC may be charged a lower rate due to amendments or contract provisions that grant lower rates for temporary beds or beds used over an occupancy threshold. Marana and Kingman are management-only contracts.
3/ Excludes special use beds totaling 1,724 as of June 30, 2017.
4/ The chart excludes prisoners awaiting transfer from county jail.

Board of Cosmetology

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	24.5	24.5	24.5
Personal Services	835,200	869,400	869,400
Employee Related Expenditures	403,300	428,400	426,700
Professional and Outside Services	126,100	126,100	201,100
Travel - In State	26,800	26,800	26,800
Travel - Out of State	7,100	7,000	7,000
Other Operating Expenditures	350,800	364,500	353,000
Equipment	8,100	8,100	8,100
OPERATING SUBTOTAL	1,757,400	1,830,300	1,892,100
SPECIAL LINE ITEMS			
Annual Leave Payout	0	34,200	34,200
AGENCY TOTAL	1,757,400	1,864,500	1,926,300 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Cosmetology Fund	1,757,400	1,864,500	1,926,300
SUBTOTAL - Other Appropriated Funds	1,757,400	1,864,500	1,926,300
SUBTOTAL - Appropriated Funds	1,757,400	1,864,500	1,926,300
TOTAL - ALL SOURCES	1,757,400	1,864,500	1,926,300

AGENCY DESCRIPTION — The board administers licensing examinations and licenses; inspects salons and schools; and investigates violations of sanitation requirements and procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$1,892,100 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

One-Time Licensing Files Digitization

The budget includes a one-time increase of \$75,000 from the Board of Cosmetology Fund in FY 2019 to digitize all active and historical licensing files, which are currently stored in paper documents. The board will secure contracted services to scan the documents into searchable digital files and dispose of the paper copies. The board will migrate the digital files to the statewide E-licensing system.

Shared Services Costs

The budget includes an increase of \$15,000 from the Board of Cosmetology Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the

Arizona Department of Administration Central Services Bureau.

Remove Private Rent Payments

The budget includes a decrease of \$(126,900) from the Board of Cosmetology Fund in FY 2019 for the removal of private rent payments. The board relocated from private rental space to the 1740 W. Adams state office building in FY 2018. State rent payments are included in the Statewide Adjustments policy issue below.

Statewide Adjustments

The budget includes an increase of \$98,700 from the Board of Cosmetology Fund in FY 2019 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 2019 for an annual leave payout. This amount is unchanged from FY 2018.

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

The Board of Cosmetology anticipates payment of accrued annual leave balances to 7 retirement-eligible employees from FY 2018 through FY 2019. Upon payment of these balances, the line item is intended to be removed from the budget.

Other Issues

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$50,800 for relocation costs. This appropriation is not displayed in the table above.

County Funding

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
FUND SOURCES			
General Fund	14,000,500	15,650,700	20,566,200
<u>Other Appropriated Funds</u>			
State Charitable, Penal and Reformatory Institutions			
Land Fund	0	0	500,000 ^{1/2/}
SUBTOTAL - Other Appropriated Funds	0	0	500,000
SUBTOTAL - Appropriated Funds	14,000,500	15,650,700	21,066,200
TOTAL - ALL SOURCES	14,000,500	15,650,700	21,066,200

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services and to offset local cost sharing and Elected Officials Retirement Plan liabilities. This section also includes monies for County Sheriff Reentry Planning Services.

Assistance to Counties

These county appropriations are in a separate section of the General Appropriation Act apart from the main ADOA appropriation.

The budget includes \$20,566,200 from the General Fund in FY 2019 for assistance to counties. FY 2019 adjustments are as follows:

Increase One-Time DJC Offset

The budget includes an increase of \$3,260,000 from the General Fund in FY 2019 for a one-time distribution of \$11,260,000 to counties to fully offset contributions for the cost of the Department of Juvenile Corrections (DJC). The FY 2018 budget included a DJC offset of \$8,000,000.

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. The FY 2019 Criminal Justice BRB requires that each county pay their proportional share of \$11,260,000 according to their population in the 2010 Decennial Census. *(Please see the Department of Juvenile Corrections section for details regarding these county cost sharing requirements.)*

One-Time Partial EORP Cost Offset

The budget includes an increase of \$1,655,500 from the General Fund in FY 2019 for a one-time distribution to counties to offset increased Elected Officials Retirement Plan (EORP) liabilities. In FY 2019, the EORP employer contribution rate will increase from 23.5% to 61.5%.

County Assistance

The budget includes no change in FY 2019 for assistance to counties. The budget appropriates \$7,650,650 to be allocated equally among counties with a population of less than 900,000 according to the 2010 Decennial Census. With one exception, each county receives \$550,050 (see Table 1). Graham County receives \$1,050,050. In FY 2018, the assistance to Mohave, Pinal, and Yavapai was labeled as one-time. In the FY 2019 budget, these monies are labeled as ongoing.

Table 1

County Distributions and County Population

County	Ongoing Assistance	One-Time DJC Offset	One-Time EORP Offset	Total FY 2019 Distribution	2010 Decennial Census Population
Apache	\$ 550,050	\$ 126,000	\$ 141,900	\$ 817,950	71,518
Cochise	550,050	231,400	195,900	977,350	131,346
Coconino	550,050	236,900	-	786,950	134,421
Gila	550,050	94,400	110,400	754,850	53,597
Graham	1,050,050	65,600	212,600	1,328,250	37,220
Greenlee	550,050	14,800	297,600	862,450	8,437
La Paz	550,050	36,200	243,500	829,750	20,489
Maricopa	-	6,724,000	-	6,724,000	3,817,117
Mohave	550,050	352,600	-	902,650	200,186
Navajo	550,050	189,300	217,600	956,950	107,449
Pima	-	1,726,900	-	1,726,900	980,263
Pinal	550,050	661,900	-	1,211,950	375,770
Santa Cruz	550,050	83,500	236,000	869,550	47,420
Yavapai*	550,050	371,700	-	921,750	211,033
Yuma	550,050	344,800	-	894,850	195,751
Total	\$7,650,650	\$11,260,000	\$1,655,500	\$20,566,150	6,392,017

*Does not include the \$500,000 appropriated to the Yavapai County Sheriff for Reentry Planning Services.

^{1/} Laws 2018, Chapter 342 appropriated \$500,000 from the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2019, FY 2020, and FY 2021 for County Sheriff Reentry Planning Services.

^{2/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

County Sheriff Reentry Planning Services

Laws 2018, Chapter 342 appropriates \$500,000 from the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2019 for County Sheriff Reentry Planning Services. Chapter 342 appropriates this same amount for both FY 2020 and FY 2021. These appropriations are non-lapsing.

This line item provides funding for the administration of release coordination reentry planning services for persons in custody of a county sheriff. This funding is appropriated to the county sheriff of a county with a population of more than 205,000 but less than 300,000 (Yavapai).

Other Issues

Additional Legislation

County Flexibility

The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283) continues 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 2019, 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, 2018. (Please see Other Issues for prior use of this provision.)

County Flexible Revenue Report

The FY 2018 Revenue BRB (Laws 2017, Chapter 312) 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 2018. Counties using the authority under Chapter 312 were required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2017.

Of the 12 eligible counties, 4 reported using the flexibility:

- Apache County: \$1.25 million from the Jail District and Sheriff's Department to the General Fund for law enforcement;
- Coconino County: \$1.25 million from the Jail District to the General Fund for law enforcement, retention incentives, and to pay down Public Safety Retirement System (PSPRS) debt;
- Mohave County: \$500,000 from the Landfill Closure Fund to the General Fund for general expenditures.
- Yuma County: \$27,100 from the Library District, County Attorney Other Grants Fund, and the Spousal Maintenance Fund to the General Fund, County Attorney Fund, and Clerk of the Superior Court Fund for general expenditures at the County Attorney's Office and for the cleaning and maintenance of the South County facility.

The following 8 eligible counties are not utilizing this provision: Cochise, Gila, Graham, Greenlee, La Paz, Navajo, Santa Cruz, and Yavapai Counties.

Table 2 shows the utilization of the county flexibility language since FY 2013.

Table 2

County Flexibility Language Utilization FY 2013 - FY 2018*

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>Total</u>
Apache	\$ 900,000	\$ 500,000	\$ 500,000	\$ 400,000	\$ 1,200,000	\$ 1,250,000	\$ 4,750,000
Cochise			36,700	23,000			59,700
Coconino				10,634,800	493,700	1,250,000	12,378,500
Gila							-
Graham							-
Greenlee							-
La Paz			5,012,500	992,500	596,500		6,601,500
Maricopa							-
Mohave	6,980,300					500,000	7,480,300
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	27,100	188,700
Total	\$18,250,500	\$ 1,136,300	\$ 7,009,200	\$14,260,500	\$ 3,541,200	\$ 3,027,100	\$47,224,800

*As reported by county governments to JLBC. Reporting to JLBC began in FY 2009.

Arizona Criminal Justice Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	9.0
Personal Services	501,500	499,000	499,000
Employee Related Expenditures	150,500	173,500	179,400
Professional and Outside Services	234,900	330,300	330,300
Travel - In State	6,000	6,000	6,000
Travel - Out of State	10,400	11,000	11,000
Other Operating Expenditures	145,300	189,000	188,800
Equipment	50,300	47,500	47,500
OPERATING SUBTOTAL	1,098,900	1,256,300	1,262,000
SPECIAL LINE ITEMS			
Criminal History Repository Upgrade	0	0	600,000 ^{1/}
Criminal Justice Statistics Pilot Program	0	0	200,000 ^{1/2/}
Felony Pretrial Intervention Programs	0	2,750,000	0
State Aid to County Attorneys	932,000	973,700	973,700
Victim Compensation and Assistance	3,484,300	4,222,600	4,222,400
AGENCY TOTAL	5,515,200	9,202,600	7,258,100 ^{3/}

FUND SOURCES

Other Appropriated Funds

Criminal Justice Enhancement Fund	502,200	651,300	650,000
Drug and Gang Prevention Resource Center Fund	596,700	605,000	812,000
Fingerprint Clearance Card Fund	0		600,000
Inmate Store Proceeds Fund	0	750,000	0
Penitentiary Land Fund	0	1,000,000	0
State Aid to County Attorneys Fund	932,000	973,700	973,700 ^{4/}
State Charitable, Penal and Reformatory Institutions Land Fund	0	1,000,000	0
Victim Compensation and Assistance Fund	3,484,300	4,222,600	4,222,400 ^{5/}
SUBTOTAL - Other Appropriated Funds	5,515,200	9,202,600	7,258,100
SUBTOTAL - Appropriated Funds	5,515,200	9,202,600	7,258,100
Other Non-Appropriated Funds	7,167,200	4,987,300	4,987,300
Federal Funds	6,708,600	6,810,300	6,810,300
TOTAL - ALL SOURCES	19,391,000	21,000,200	19,055,700

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/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
- ^{2/} Laws 2018, Chapter 278 appropriated \$200,000 from the Drug and Gang Prevention Resource Center Fund in FY 2019 for the Criminal Justice Statistics Pilot Program.
- ^{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 2019 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 \$4,222,400 in FY 2019 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance Fund monies in excess of \$4,222,400 in FY 2019, 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 \$1,262,000 and 9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
CJEF	\$650,000
Drug and Gang Prevention Resource Center Fund	612,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$5,700 in FY 2019 for statewide adjustments. This amount consists of:

CJEF	(1,300)
Drug and Gang Prevention Resource Center Fund	7,000

(Please see the Agency Detail and Allocations section.)

Criminal History Repository Upgrade

The budget includes \$600,000 from the Fingerprint Clearance Card Fund in FY 2019 for a Criminal History Repository Upgrade. FY 2019 adjustments are as follows:

Arizona Computerized Criminal History Repository

The budget includes an increase of \$600,000 from the Fingerprint Clearance Card Fund in FY 2019 for a Computerized Criminal History Repository Upgrade. This appropriation is non-lapsing. The budget also appropriates \$600,000 from the Fingerprint Clearance Card Fund for the same purpose in FY 2020 and FY 2021. This line item provides funding for the Arizona Computerized Criminal History Repository Upgrade in which ACJC coordinates with the Department of Public Safety, law enforcement agencies, county attorneys, and courts to develop and implement a data exchange system to allow for the electronic transfer and submission of criminal history record information to the Arizona Computerized Criminal History Repository within 24 hours. Priority is given to entities based on deficiencies in dispositions and volume of cases.

Criminal Justice Statistics Pilot Program

The FY 2019 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 278) appropriates \$200,000 from the Drug and Gang Prevention Resource Center Fund in FY 2019 for a Criminal Justice Statistics Pilot Program. This appropriation is non-lapsing.

This line item provides funding for a distribution to the Pinal and Yavapai County Attorneys Offices to cover the cost associated with the Criminal Justice Statistics Pilot Program.

Felony Pretrial Intervention Programs

The budget includes no funding in FY 2019 for Felony Pretrial Intervention Programs. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,750,000) in FY 2019 for the removal of one-time funding for Felony Pretrial Programs. This amount consists of:

Inmate Store Proceeds Fund	(750,000)
Penitentiary Land Fund	(1,000,000)
State Charitable, Penal and Reformatory Institutions Land Fund	(1,000,000)

Laws 2017, Chapter 286 provided one-time funding of \$2,750,000 from these 3 funds in FY 2018 for Felony Pretrial Intervention Programs. The distributions to county attorney offices for administering felony pretrial intervention programs are shown in *Table 1*.

Table 1

Felony Pretrial Intervention Program

<u>County</u>	<u>FY 2018 One-Time Distribution</u>
Apache	\$ 76,400
Cochise	140,300
Coconino	143,600
Gila	57,200
Graham	39,700
Greenlee	9,000
La Paz	21,900
Maricopa	-
Mohave	213,800
Navajo	114,800
Pima	1,046,900
Pinal	401,300
Santa Cruz	50,600
Yavapai	225,400
Yuma	<u>209,100</u>
TOTAL	\$2,750,000

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 2019 for State Aid to County Attorneys. This amount is unchanged from FY 2018.

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. 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 \$4,222,400 from the Victim Compensation and Assistance Fund in FY 2019 for Victim Compensation and Assistance. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(200) from the Victim Compensation and Assistance Fund in FY 2019 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

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ACJC's Other Fund costs are projected to decrease by \$(200,000) in FY 2020 below FY 2019 and remain unchanged from FY 2020 in FY 2021. This assumes the one-time funding of \$200,000 from the Drug and Gang Prevention Resource Center Fund will be removed in FY 2020.

Byrne Grant

The FY 2019 Criminal Justice BRB requires ACJC to submit its annual federal grant application for the Edward Byrne Memorial Justice Assistance Grant to the Joint Legislative Budget Committee for review. This review would place the department in compliance with federal law.

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 2018 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. In FY 2019, projected annual revenues are \$700,500, 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.

In September 2017, ACJC submitted its comprehensive annual report on ARRF to the statutory recipients. ACJC reported that, in FY 2017, the ARRF received revenues

totaling \$53.9 million and had expenditures totaling \$62.5 million (including monies from prior year balances). Revenues for investigating and prosecuting agencies were highest in Maricopa County in FY 2017 at \$30.2 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2017 with \$30.2 million in ARRF monies spent.

Laws 2017, Chapter 250 changed 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.

ACJC submitted its second quarter report for FY 2018. In the second quarter of FY 2018, the ARRF received revenues totaling \$11.5 million and had expenditures totaling \$5.2 million. Revenues for investigating and prosecuting agencies were highest in Maricopa County at \$7.2 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total in the quarter with \$2.1 million in ARRF monies spent.

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.

Criminal Justice Enhancement Fund Distribution Modification

Laws 2018, Chapter 237 reduces the Criminal Justice Enhancement Fund (CJEF) surcharge from 47.0% to 42.0% and removes the Victims' Rights Fund and Victim Compensation and Assistance Fund as recipients of the surcharge. Instead, these 2 funds would receive revenue from a new \$9 penalty on criminal and civil violations. (See Table 2 for detailed distribution changes.) As a result of the changes, the Administrative Office of the Courts estimates that non-victim funds will collectively receive an additional \$559,000 in revenue and the 2 victim funds will receive \$89,600 in combined additional revenue for an overall revenue increase of \$648,600.

Table 2

Criminal Justice Enhancement Fund (CJEF) Recipient Changes

<u>Recipient</u>	<u>Prev. Dist. (%)</u>	<u>FY 2017 Dist. (\$)</u>	<u>New CJEF Dist. (%)</u>	<u>New \$9 Dist (%)</u>	<u>New Est. Dist. (\$)</u>	<u>\$ Change</u>
Public Safety Forensics Fund (2 separate allocations)	19.04	\$6,487,500	21.71	-	\$6,609,000	\$121,500
Department of Juvenile Corrections	1.61	548,500	1.84	-	560,100	11,600
Peace Officers' Training Fund	16.64	5,668,600	18.97	-	5,774,800	106,200
Prosecuting Attorneys' Advisory Council Training Fund	3.03	1,032,200	3.45	-	1,050,200	18,000
Supreme Court (Juvenile Crime)	9.35	3,185,200	10.66	-	3,245,100	59,900
Department of Public Safety	7.27	2,478,600	8.29	-	2,523,600	45,000
Attorney General	9.35	3,185,200	10.66	-	3,245,100	59,900
Supreme Court (Processing, Auditing)	6.02	2,050,800	6.86	-	2,088,300	37,500
County Sheriffs	11.70	3,985,700	13.34	-	4,060,900	75,200
Arizona Criminal Justice Commission	1.57	534,800	1.79	-	544,900	10,100
Supreme Court (Drug Treatment – Adult Probation)	2.13	725,600	2.43	-	739,700	14,100
Victims' Rights Fund	7.68	2,616,300	0	62.40	2,666,300	50,000
Victim Compensation and Assistance Fund	4.60	1,567,000	0	37.60	1,606,600	39,600
Total	100%	\$34,066,000	100%	\$100.00	\$34,714,600	\$648,600

Arizona State Schools for the Deaf and the Blind

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
PROGRAM BUDGET			
Administration/Statewide	4,712,400	4,996,100	4,866,000
Phoenix Day School for the Deaf	9,968,700	9,969,400	9,841,700
Preschool/Outreach Programs	4,154,400	4,348,900	6,369,500 ^{1/}
Regional Cooperatives	61,200	61,200	39,500
Tucson Campus	14,375,200	14,435,100	14,150,500
AGENCY TOTAL	33,271,900	33,810,700	35,267,200
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	562.2 ^{2/}
Personal Services	18,220,100	18,220,100	19,820,100
Employee Related Expenditures	7,997,700	7,997,700	7,723,000
Professional and Outside Services	1,701,000	1,813,000	1,474,200
Travel - In State	58,400	67,400	67,400
Travel - Out of State	23,600	27,000	27,000
Food	217,700	215,000	215,000
Other Operating Expenditures	4,054,500	3,935,500	3,935,500
Equipment	491,600	797,000	1,267,000
OPERATING SUBTOTAL	32,764,600	33,072,700	34,529,200 ^{1/}
SPECIAL LINE ITEMS			
School Bus Replacement	507,300	738,000	738,000
AGENCY TOTAL	33,271,900	33,810,700	35,267,200 ^{3/}
FUND SOURCES			
General Fund	21,616,900	21,932,000	21,659,300
<u>Other Appropriated Funds</u>			
Schools for the Deaf and the Blind Fund	11,655,000	11,878,700	11,537,900 ^{4/}
Telecommunication Fund for the Deaf	0	0	2,070,000
SUBTOTAL - Other Appropriated Funds	11,655,000	11,878,700	13,607,900
SUBTOTAL - Appropriated Funds	33,271,900	33,810,700	35,267,200
Other Non-Appropriated Funds	17,919,800	17,521,600	17,508,600
Federal Funds	2,219,800	2,213,500	2,213,500
TOTAL - ALL SOURCES	53,411,500	53,545,800	54,989,300

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 November 2017, ASDB served approximately 2,042 children: 400 students in the K-12 programs (130 in Tucson and 270 in Phoenix), 89 children in preschools, 434 infant/toddlers in regional areas, and 1,119 children through the 5 existing regional cooperatives.

^{1/} Laws 2018, Chapter 291 appropriated \$2,070,000 and 21 OF FTE Positions from the Telecommunication Fund for the Deaf for the Early Childhood and Family Education Program.

^{2/} Includes 21 OF FTE Positions appropriated by Laws 2018, Chapter 291.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

^{4/} Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,537,900 in FY 2019, 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 \$34,529,200 and 562.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$20,921,300
Schools for the Deaf and the Blind Fund	11,537,900
Telecommunication Fund for the Deaf	2,070,000

FY 2019 adjustments are as follows:

Enrollment Change

The budget includes a decrease of \$(533,900) from the ASDB Fund in FY 2019 for enrollment changes. The FY 2018 budget assumed that ASDB would receive \$11,878,700 from the ASDB Fund in FY 2018, but the revised estimate based on preliminary FY 2018 data is \$11,344,800 (\$533,900 less) due to lower-than-budgeted enrollment for FY 2018 (511 budgeted versus 489 revised – see Table 1). The budget assumes no further change in ASDB enrollments for the Tucson, Phoenix and preschool programs for FY 2019, so the budget also assumes that ASDB again will require \$11,344,800 for special education vouchers from the ASDB Fund for FY 2019 prior to the inflation and teacher salary increase adjustments described separately below. This would require a \$(533,900) reduction from ASDB's FY 2018 budget.

ASDB receives funding from the Arizona Department of Education, as its students qualify for K-12 formula funding. These monies are deposited into the ASDB Fund and the non-appropriated Regional Cooperatives Fund.

Base Level Increase

The budget includes an increase of \$195,100 from the ASDB Fund in FY 2019 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 1.8% in FY 2019, which results in additional FY 2019 funding of \$195,100.

Early Childhood and Family Education Program

The budget includes an increase of \$2,070,000 and 21 FTE Positions from the Telecommunication Fund for the Deaf in FY 2019 to expand the Early Childhood and Family Education Program.

Laws 2018, Chapter 291 appropriates \$2,070,000 and 21 FTE Positions from the Telecommunication Fund for the Deaf in FY 2019 to fund additional early intervention

specialists in the Early Childhood and Family Education Program. Of that amount, \$1,600,000 is ongoing to fund intervention specialists' salaries and \$470,000 is one-time monies to purchase fleet vehicles for the 21 new early intervention specialists. *(Please see the Commission for the Deaf and the Hard of Hearing narrative for more information.)*

The FY 2019 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 285) allows ASDB to use monies appropriated to it from the Telecommunication Fund for the Deaf in FY 2019 for ASDB's Early Childhood and Family Education Program.

Statewide Adjustments

The budget includes a decrease of \$(274,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(272,700)
Schools for the Deaf and the Blind Fund	(2,000)

(Please see the Agency Detail and Allocations section.)

Assistive Technology Devices

The budget includes no change in funding from the General Fund in FY 2019 for assistive technology devices. The budget includes a total of \$253,100 from the General Fund in FY 2019 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 2019 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 2019 for School Bus Replacement. This amount is unchanged from FY 2018.

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.

Other Issues

Additional Legislation

FY 2018 Salary Increase

Laws 2018, Chapter 288 makes ASDB teachers eligible retroactively for the 1.06% teacher salary increase provided for school districts and charter schools for FY 2018. Chapter 288 contains a retroactive clause effective to June 30, 2017. Laws 2017, Chapter 305 appropriated \$34 million to the Arizona Department of Education for a 1.06% teacher salary increase in FY 2018 for teachers who taught in a public school during the 2017 school year and who continue to teach in a public school during the 2018 school year.

FY 2019 Teacher Salary Increase

The FY 2019 K-12 Education BRB included an additional 5.72% base level increase for FY 2019 for teacher salary increases. This additional increase is intended to be used to raise teacher salaries by an average of 10% statewide and pay the employer share of associated increases in teacher benefits for FY 2019.

ASDB is expected to receive approximately \$1,386,400 in FY 2019 from the additional 5.72% base level increase. That amount includes an estimated \$756,100 increase for ASDB's non-appropriated Regional Cooperatives Fund and an estimated \$630,300 increase for its appropriated ASDB Fund. This increase is not displayed in the agency's budget table.

The budget does not increase ASDB's appropriation from the ASDB Fund to reflect the estimated \$630,300 funding increase to it for FY 2019. An ongoing General Appropriation Act footnote, however, permits ASDB to spend monies from the ASDB Fund that exceed the ASDB Fund appropriation if ASDB reports the intended use of the additional ASDB Fund monies to the Joint Legislative Budget Committee. This footnote will allow ASDB to spend whatever funding the ASDB Fund receives from the additional 5.72% base level increase for FY 2019. *(Please see the Arizona Department of Education narrative for more information.)*

Enrollment Projections

Table 1 shows average annual enrollment data for ASDB's Tucson, Phoenix, and Preschool campuses since FY 2015. FY 2018 estimates are based on preliminary enrollment data for FY 2018. The budget assumes that FY 2019 enrollment levels for ASDB will be unchanged from FY 2018.

Table 1

	ASDB Average Annual Enrollment			
	FY 2015	FY 2016	FY 2017	FY 2018
Tucson	158	138	129	130
Phoenix	274	266	283	270
Preschool	97	98	99	89
Total	529	502	511	489^{1/}

^{1/} Enrollment as of November 2017.

Commission for the Deaf and the Hard of Hearing

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	15.0	16.0	16.0
Personal Services	944,000	1,066,000	1,066,000
Employee Related Expenditures	358,700	435,800	429,500
Professional and Outside Services	573,600	640,000	640,000
Travel - In State	9,200	12,000	12,000
Travel - Out of State	14,000	21,500	21,500
Other Operating Expenditures	1,681,000	1,989,300	1,986,500
Equipment	177,000	266,000	266,000
OPERATING SUBTOTAL	3,757,500	4,430,600	4,421,500
SPECIAL LINE ITEMS			
Support Services for the Deaf-Blind	0	192,000	192,000
AGENCY TOTAL	3,757,500	4,622,600	4,613,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	3,757,500	4,622,600	4,613,500
SUBTOTAL - Other Appropriated Funds	3,757,500	4,622,600	4,613,500
SUBTOTAL - Appropriated Funds	3,757,500	4,622,600	4,613,500
TOTAL - ALL SOURCES	3,757,500	4,622,600	4,613,500

AGENCY DESCRIPTION — The agency acts as an information and referral resource for the deaf and the hard of hearing and provides educational materials to the general public. The agency also administers a statewide telephone access program, the Telecommunication Devices for the Deaf (TDD) Relay Program. The agency licenses interpreters for the deaf and the hard of hearing. The agency is supported by the Telecommunication Fund for the Deaf, which derives monies from the Telecommunication Services Excise Tax.

Operating Budget

The budget includes \$4,421,500 and 16 FTE Positions from the Telecommunication Fund for the Deaf in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,100) from the Telecommunication Fund for the Deaf in FY 2019 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 2019 for the Support Services for the Deaf-Blind line item. This amount is unchanged from FY 2018.

Monies in this line item fund a support services program which provides 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.

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.

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

The fund balance has consistently increased over the past 5 years. From FY 2012 to FY 2017 the fund averaged \$4.8 million in annual ongoing revenue in comparison to \$3.9 million in annual expenditures. In FY 2017 the fund had a year-end balance of \$10.3 million. FY 2018 revenues are expected to be \$1.0 million above FY 2018 expenditures, with an estimated year-end balance of \$11.4 million.

<i>Additional Legislation</i>

***Arizona State Schools for the Deaf and the Blind
Early Childhood and Family Education Program***

Laws 2018, Chapter 291 appropriates \$2,070,000 and 21 FTE Positions from the Telecommunication Fund for the Deaf to the Arizona State Schools for the Deaf and the Blind (ASDB) in FY 2019 for the ASDB Early Childhood and Family Education Program.

The FY 2019 K-12 Education Budget Reconciliation Bill (Laws 2018, Chapter 285) allows ASDB to use monies appropriated to it from the Telecommunication Fund for the Deaf in FY 2019 for the ASDB Early Childhood and Family Education Program. *(Please see the Arizona State Schools for the Deaf and the Blind narrative for more information.)*

State Board of Dental Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	510,800	547,300	547,300
Employee Related Expenditures	224,300	165,000	158,100
Professional and Outside Services	134,900	299,200	299,200
Travel - In State	1,900	3,200	3,200
Travel - Out of State	4,900	5,500	5,500
Other Operating Expenditures	203,800	186,000	263,500
Equipment	31,800	23,700	23,700
AGENCY TOTAL	1,112,400	1,229,900	1,300,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Dental Board Fund	1,112,400	1,229,900	1,300,500
SUBTOTAL - Other Appropriated Funds	1,112,400	1,229,900	1,300,500
SUBTOTAL - Appropriated Funds	1,112,400	1,229,900	1,300,500
TOTAL - ALL SOURCES	1,112,400	1,229,900	1,300,500

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of dentists, denturists, dental hygienists and dental assistants.

Operating Budget

The budget includes \$1,300,500 and 11 FTE Positions from the Dental Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

One-Time Document Scanning

The budget includes an increase of \$87,800 from the Dental Board Fund in FY 2019 for one-time costs associated with scanning licensing documents.

Remove Private Rent Payments

The budget includes a decrease of \$(61,900) from the Dental Board Fund in FY 2019 for the removal of private rent payments. The board relocated from private rental space to the 1740 W. Adams state office building in FY 2018. State rent payments are included in the Statewide Adjustments policy issue below.

Shared Services Costs

The budget includes an increase of \$10,400 from the Dental Board Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$34,300 from the Dental Board Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Dental Therapy Licenses

Laws 2018, Chapter 296 requires the Board of Dental Examiners to license and regulate dental therapists in Arizona. The cost of regulation will be funded through licensure fees.

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$26,700 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Early Childhood Development and Health Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	131,895,400	136,163,700	134,808,500
Federal Funds	5,680,600	9,158,300	8,284,900
TOTAL - ALL SOURCES	137,576,000	145,322,000	143,093,400

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 2017, ECDHB’s largest expenditure was **Child Care Scholarships** at \$64.6 million, as displayed in *Table 1*, serving an average of 4,593 children monthly, down from 5,264 in FY 2016. ECDHB has increased the number of child care facilities it rates as 3 to 5 stars, which results in a higher reimbursement rate for these facilities. While the child care facility may be of higher quality, the higher reimbursement means fewer children are served.

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 2017 ECDHB Fund Expenditures by Category
(\$ in Millions)

<u>Expenditure Category</u>	<u>Amount</u>	<u>Percent</u>
Child Care Scholarships	\$64.6	49%
Family Support	29.8	23%
Health	14.6	11%
Administration	10.1	8%
Professional Development	5.9	4%
Community Awareness	2.6	2%
Research & Evaluation	3.0	2%
System Coordination	0.9	1%
Other Funds (Grants, Gifts, etc.)	0.4	0%
Total	\$131.9	100%

ECDHB child care expenditures are also 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 113 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 2018 expenditures leave the fund with a projected balance of \$365.3 million at the end of FY 2018. 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.

	ECDH Fund ^{1/2/} (\$ in Millions)			
	FY 2016	FY 2017	FY 2018	FY 2019
	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Revenues				
Beginning Balance	\$364.1	\$370.9	\$371.0	\$365.3
Ongoing Revenues ^{3/}	<u>131.2</u>	<u>132.0</u>	<u>130.5</u>	<u>128.6</u>
Total Revenues	\$495.4	\$502.9	\$501.5	\$493.9
Expenditures				
Administrative	\$12.9	\$13.2	\$14.8	\$14.7
Program ^{3/}	<u>111.5</u>	<u>118.7</u>	<u>121.4</u>	<u>120.1</u>
Total Expenditures	\$124.4	\$131.9	\$136.2	\$134.8
Ending Balance	\$370.9	\$371.0	\$365.3	\$359.1

^{1/} Data from ECDHB.
^{2/} Numbers may not add due to rounding.
^{3/} Does not include federal grant revenue or expenditures.

Other Issues

Additional Legislation

The FY 2019 Human Services Budget Reconciliation Bill (Laws 2018, Chapter 282) continues to require ECDHB to report with DCS on their collaborative efforts to address child welfare issues of common concern.

Office of Economic Opportunity

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	5.0	5.0
Personal Services	295,600	306,500	306,500
Employee Related Expenditures	99,400	107,300	112,000
Professional and Outside Services	51,500	10,000	10,000
Travel - In State	0	200	200
Travel - Out of State	2,300	2,500	2,500
Other Operating Expenditures	55,000	57,600	57,600
Equipment	4,900	0	0
OPERATING SUBTOTAL	508,700	484,100	488,800
SPECIAL LINE ITEMS			
Small Water Systems Fund Deposit	500,000	0	0
AGENCY TOTAL	1,008,700	484,100	488,800 ^{1/}
FUND SOURCES			
General Fund	1,008,700	484,100	488,800
SUBTOTAL - Appropriated Funds	1,008,700	484,100	488,800
Other Non-Appropriated Funds	84,357,900	143,023,900	140,794,600
Federal Funds	18,014,200	20,745,800	20,745,800
TOTAL - ALL SOURCES	103,380,800	164,253,800	162,029,200

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 \$488,800 and 5 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$4,700 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Agency Structure and Funding

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 statutory supervision over all 3 entities. Table 1 below displays the estimated FY 2019 FTE allocations and expenditures for the 3 entities as reported by the agencies.

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

Table 1
FY 2019 FTE Positions and Expenditures

<u>Recipient</u>	<u>FTE Positions</u>	<u>Total Funds</u>
OEO	35.6	\$ 4,158,200
AFA	20.7	157,871,000
AIDA ^{1/}	3.5	350,000
Total	59.8	162,379,200

^{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 are held 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 Workforce Data Task Force.

- OEO’s statistical analysis arm evaluates employment, population, and unemployment insurance data.
- The Workforce Arizona Council develops the state workforce plan, reviews statewide policies and programs that affect workforce development, and develops allocation formulas for employment and training grants.
- The Workforce Data Task Force oversees the development and maintenance of the state workforce evaluation data system.

OEO’s funding was originally provided through the transfer of resources tied to the functions shifted to OEO from other agencies, and from fees paid to the Corporation Commission for securities filings that were previously deposited into the Arizona Competes Fund. *(For a more detailed history of the creation of OEO and the transfers from other agencies, please see the FY 2018 Appropriations Report.)*

OEO is estimating annual expenditures of \$6,382,800 in FY 2018 and \$4,158,200 in FY 2019 due to the removal of one-time costs incurred for the implementation of the Arizona Career Readiness Credential. *Table 2* displays OEO’s estimated expenditures for FY 2019 by fund source.

Table 2
OEO FY 2019 Estimated Expenditures

<u>Fund Source</u>	<u>FY 2019</u>
General Fund	\$ 488,800
IGA & ISA Fund	600,700
Corporation Commission Fees	811,500
Federal Funds	2,257,200
OEO TOTAL	\$4,158,200

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 received a total of \$5.1 million in FY 2018; the FY 2019 budget transfers this amount to the General Fund at the end of 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 smaller; AIDA anticipates transferring an additional \$900,000 into the fund at the end of FY 2018. OEO does not anticipate any expenditures from the fund in FY 2019.

AFA

AFA houses the functions of the Water Infrastructure Finance Authority (WIFA), the Greater Arizona Development Authority (GADA), and administers the state’s Private Activity Bond (PAB) authorization. AFA is expected to oversee \$157,871,000 in expenditures in FY 2019 *(see Table 3)*.

- 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.
- As the state’s recipient of the PAB authorization (tax exempt bonds allocated by the federal government to the state for certain private use), AFA issues PAB authority to local IDAs to allow the IDAs to issue bonds on behalf of a private entity. The entity uses 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 WIFA and GADA proceeds, bond proceeds from issuances of the AIDA, and gifts and grants. Monies received from these sources are deposited into the AFA Operations Fund.

The AFA is also responsible for the Clean Water Revolving Fund (\$90,338,300) and the Drinking Water Revolving Fund (\$48,998,800). These 2 funds provide loans to political subdivisions and Indian tribes for drinking water facilities and capital improvements at wastewater treatment facilities. Additionally, AFA administers Federal Funds (\$18,488,600) that provide water infrastructure loans to local governments and Indian tribes.

Table 3
AFA FY 2019 Estimated Expenditures

<u>Agency/Fund Source</u>	<u>FY 2019</u>
WIFA	
Clean Water Revolving Fund	\$ 90,338,300
Drinking Water Revolving Fund	48,998,800
Federal Funds	<u>18,488,600</u>
Total WIFA	\$ 157,825,700
GADA	
GADA Revolving Fund	\$ 32,400
AFA	
AFA Operations Fund	\$ <u>12,900</u>
AFA TOTAL	\$ 157,871,000

AFA will also expend an estimated \$32,400 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 2018 estimated ending balance for the GADA Revolving Fund is \$12,230,800 which will allow for bonding of up to \$366,924,200 at the current leverage ratio.

AIDA

AFA also governs AIDA, which has responsibility for the former activities for the Arizona Housing Finance Authority, Arizona Health Facilities Authority, and the Arizona International Development Authority. In addition, AIDA is authorized to issue 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. In FY 2017, these transfers created a surplus of \$5,085,800 past what AIDA needed to operate. Laws 2016, Chapter 372 requires that any unobligated monies within AIDA be transferred to the OEO-administered Economic Development Fund at the end of each fiscal year. As a result, the \$5,085,800 FY 2017 ending balance within AIDA was 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 2019 expenditures.

Table 4
AIDA FY 2019 Estimated Expenditures

<u>Fund Source</u>	<u>FY 2019</u>
AIDA IGA & ISA Fund	\$350,000 ^{1/}

^{1/} Represents an estimate based on FY 2017 expenditure data. This amount is not reflected in the OEO summary table as the monies are held an AIDA bank account rather than a state fund.

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
AFA Operations Fund	\$0	\$67,000
AIDA IGA and ISA Fund	0	300,000
Economic Development Fund	5,085,000	0
GADA Revolving Fund	1,319,000	0
OEO Operations Fund	0	2,200,000

Department of Economic Security

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,218.0	4,289.4	4,323.8 ^{1/}
Personal Services	68,445,700	75,777,300	74,522,700
Employee Related Expenditures	30,557,300	33,669,600	32,866,100
Professional and Outside Services	15,202,600	18,764,700	18,761,300
Travel - In State	494,400	538,600	535,600
Travel - Out of State	77,200	1,600	1,600
Other Operating Expenditures	24,797,000	28,140,700	28,736,800
Equipment	3,653,900	3,194,000	3,193,300
OPERATING SUBTOTAL	143,228,100	160,086,500	158,617,400 ^{2/3/}
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	9,632,100	11,004,000	11,002,700
SNAP Benefit Match Program	0	0	400,000 ^{4/}
Adult and Aging Services			
Adult Services	8,624,100	9,431,900	9,902,900
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	14,003,700	14,003,700	14,003,700 ^{5/6/}
Benefits and Medical Eligibility			
TANF Cash Benefits	27,736,400	27,736,400	22,736,400
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
One-Time Food Bank Funding	0	0	1,000,000
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	4,177,300	8,740,200	8,740,200
Developmental Disabilities ^{7/8/9/10/11/}			
DDD Administration	55,933,100	79,835,500	83,504,800 ^{12/}
DDD Premium Tax Payment	0	28,972,900	30,461,200
Case Management - Medicaid	61,205,300	67,078,100	70,018,100 ^{12/}
Home and Community Based Services - Medicaid	855,589,000	1,100,064,500	1,196,993,000
Institutional Services - Medicaid	22,557,300	42,693,800	45,154,600 ^{9/}
Arizona Training Program at Coolidge - Medicaid	15,288,600	0	0
Children's Rehabilitative Services - Medicaid	0	0	50,390,100
Medical Services - Medicaid	167,472,400	172,588,400	197,154,900
Medicare Clawback Payments	3,370,600	4,043,000	4,185,100
Targeted Case Management - Medicaid	0	0	6,614,500
Case Management - State Only	3,893,700	3,913,000	4,313,400 ^{12/}
Home and Community Based Services - State Only	17,340,400	20,028,000	13,709,000
Cost Effectiveness Study Client Services	0	0	1,100,000 ^{13/}
Arizona Early Intervention Program	0	0	8,219,000 ^{14/}
State-Funded Long Term Care Services	27,159,600	28,561,500	34,959,600
Employment and Rehabilitative Services			
JOBS	9,816,700	11,005,600	11,005,600
Child Care Subsidy	79,166,300	98,396,600	98,396,600 ^{15/}
Rehabilitation Services	7,249,100	7,249,100	7,249,100
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
Workforce Investment Act Services	42,854,000	53,654,600	53,654,600 ^{16/}
AGENCY TOTAL	1,590,268,700	1,963,058,200 ^{17/}	2,157,457,400 ^{18/-20/}

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
FUND SOURCES			
General Fund	538,032,200	586,110,300	650,936,900
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	8,019,000	17,267,400	16,973,100
Domestic Violence Services Fund	4,000,000	4,000,000	4,000,000 ^{5/6/}
Federal CCDF Block Grant	87,910,200	107,773,600	110,518,600
Federal TANF Block Grant	70,316,700	72,964,700	65,324,900
Health Services Lottery Fund	700,000	2,800,000	0
Long Term Care System Fund (Non-Federal Matched)	26,559,600	26,561,500	26,559,600
Public Assistance Collections Fund	6,600	422,100	422,500
Special Administration Fund	5,528,700	2,951,800	5,677,300
Spinal and Head Injuries Trust Fund	2,308,500	2,326,400	4,254,400
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	44,878,300	56,040,200	56,044,500 ^{16/}
SUBTOTAL - Other Appropriated Funds	250,227,600	294,107,700	290,774,900
SUBTOTAL - Appropriated Funds	788,259,800	880,218,000	941,711,800
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	32,837,000	42,299,500	42,299,500
Long Term Care System Fund (Federal Match)	769,171,900	1,040,540,700	1,173,446,100
SUBTOTAL - Expenditure Authority Funds	802,008,900	1,082,840,200	1,215,745,600
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,590,268,700	1,963,058,200	2,157,457,400
Other Non-Appropriated Funds	283,379,900	280,916,800	297,867,200
Federal Funds	1,862,208,000	1,849,986,700	1,849,986,700
TOTAL - ALL SOURCES	3,735,856,600	4,093,961,700	4,305,311,300

AGENCY DESCRIPTION — The department provides an array of services for low-income households and others in need. These services are provided through the following divisions: Administration; Developmental Disabilities; Benefits and Medical Eligibility; Child Support Enforcement; Aging and Community Services; and Employment and Rehabilitation Services.

- 1/ Includes 689.5 GF, 237.6 OF, and 1,522.3 EA FTE Positions funded from Special Line Items in FY 2019.
- 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 \$16,973,100 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/ Laws 2018, Chapter 334 appropriated \$400,000 from the General Fund for the planning of a Supplemental Nutrition Assistance Program (SNAP) benefit match program.
- 5/ 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)
- 6/ 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, 2018. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- 7/ 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 implementing 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)
- 8/ Before implementing 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)

Summary

The Department of Economic Security's (DES) FY 2019 General Fund spending increases by \$64,826,600, or 11.1% above the FY 2018 appropriation. This amount includes:

- \$34,066,200 for DDD formula adjustments.
- \$15,212,700 to transfer funding for DDD Children's Rehabilitative Services from AHCCCS to DES to reflect AHCCCS' plans to integrate care for DD members.
- \$3,883,400 for Proposition 206 rate increases to annualize the January 2018 minimum wage increase and to provide 6-month funding for the January 2019 adjustment.
- \$174,200 to increase DD skilled facility and assisted living facility rates by 3%.
- \$6,400,000 for state-only room and board costs for ALTCS DDD clients in residential settings.
- \$2,400,000 for state-only case management expenses.

- \$1,000,000 to continue and increase one-time funding for DDD Proposition 206 costs and room and board expenses.
- \$1,000,000 for one-time food bank funding.
- \$400,000 for the SNAP Benefits Match Program.
- \$290,100 for statewide adjustments.

Operating Budget

The budget includes \$158,617,400 and 1,874.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$78,774,200
Child Support Enforcement Administration Fund	13,447,100
Child Support Enforcement Administration Fund (EA)	27,542,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,393,300
Federal Child Care and Development Fund (CCDF) Block Grant	12,104,300

- 9/ 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 2019 and the reason 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 September 1, 2019. On or before September 1, 2019, the department shall also report to the Director of the Joint Legislative Budget Committee the total costs associated with the Arizona Training Program at Coolidge in FY 2019. (General Appropriation Act footnote)
- 10/ 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)
- 11/ The department shall report to the Joint Legislative Budget Committee on or before August 1, 2018 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2018. 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, 2018 report. (General Appropriation Act footnote)
- 12/ Before transferring any monies in or out of the Case Management - Medicaid, Case Management - State-Only and DDD Administration line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 13/ Laws 2018, Chapter 346 appropriated \$1,100,000 from the Special Administration Fund for Cost Effectiveness Study Client Services.
- 14/ The department shall report to the Joint Legislative Budget Committee on or before December 1, 2018 its plans to reduce screening costs associated with the Arizona Early Intervention Program. (General Appropriation Act footnote)
- 15/ 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)
- 16/ All Workforce Investment Act Grant monies that are received by this state in excess of \$56,044,500 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$56,044,500 to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 17/ 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, 2018 and must be reimbursed in full as part of the closing process for FY 2018. The appropriation may not be used for additional programmatic expenditures. (General Appropriation Act footnote)
- 18/ 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)
- 19/ The Department of Economic Security shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and potential federal and other 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)
- 20/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Public Assistance Collections Fund	331,700
Special Administration Fund	2,070,400
Spinal and Head Injuries Trust Fund	574,300
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,379,900

FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,000,000) from the Health Services Lottery Monies Fund in FY 2019 to remove one-time funding for Adult Protective Services caseworkers. The enacted FY 2018 budget's 3-year spending plan designated this spending as one-time. Federal Victim of Crimes Act (VOCA) Victim's Assistance Award monies have been identified by the department to pay for the caseworkers and are no longer part of the appropriated budget.

AFIS Payment

The budget includes an increase of \$364,000 from the Special Administration Fund in FY 2019 for increased Arizona Financial Information System (AFIS) charges.

Statewide Adjustments

The budget includes an increase of \$166,900 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	333,000
Child Support Enforcement Administration Fund	(294,300)
Federal TANF Block Grant	77,800
Federal CCDF Block Grant	27,200
Public Assistance Collections Fund	400
Special Administration Fund	(9,500)
Spinal and Head Injuries Trust Fund	28,000
Workforce Investment Act Grant	4,300

(Please see the Agency Detail and Allocations section.)

Administration

Attorney General Legal Services

The budget includes \$11,002,700 and 156.9 FTE Positions in FY 2019 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,227,800
Child Support Enforcement Administration Fund	2,446,900
Child Support Enforcement Administration Fund (EA)	7,096,200
Federal TANF Block Grant	106,300

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

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,300) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(1,500)
Federal TANF Block Grant	200

SNAP Benefits Match Program

Laws 2018, Chapter 334 appropriates \$400,000 from the General Fund in FY 2019 to establish a Supplemental Nutrition Assistance Program (SNAP) Benefit Match for Arizona-grown produce purchases.

Monies in this line item are considered one-time and can only be used if there is a corresponding match from federal, local or private sources. The monies are non-lapsing through the end of FY 2020.

Aging and Adult Services

Adult Services

The budget includes \$9,902,900 in FY 2019 for Adult Services. These amounts consist of:

General Fund	8,731,900
Special Administration Fund	1,171,000

FY 2019 adjustments are as follows:

Increased Funding

The budget includes an increase of \$471,000 in FY 2019 for in-home services for the elderly provided by the Area Agencies on Aging. The amount consists of:

Health Services Lottery Monies Fund	(700,000)
Special Administration Fund	1,171,000

In FY 2018, \$700,000 was appropriated out of the Health Services Lottery Monies Fund for this line item as a one-time expenditure. The FY 2019 budget continues this funding, but funds it out of the Special Administration Fund. The total amount funded from the Special Administration Fund in FY 2019 is \$1,171,000.

The FY 2019 Human Services Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 282) authorizes the use of Special Administration Fund monies for Adult Services.

This line item provides an array of independent living support to elderly persons, as shown in *Table 1*.

Table 1	
Independent Living Support	
Services	FY 2019
Adult Protective Contracted Services	\$ 366,000
Supplemental Payments	107,500
Home Care	4,742,300
Older Americans Act	2,161,300
Assessments and Case Management	1,952,700
Respite Care	573,100
Total	\$9,902,900

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2019 for Community and Emergency Services. This amount is unchanged from FY 2018.

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 2017, this line item provided short-term crisis services to 1,264 households and energy assistance to 30,970 households.

Coordinated Homeless Services

The budget includes \$2,522,600 in FY 2019 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 2018.

In FY 2017, this line item provided emergency shelter services to 8,233 individuals, rapid re-housing services to 2,496 individuals, and homeless prevention services to 24 individuals.

Domestic Violence Prevention

The budget includes \$14,003,700 in FY 2019 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

Special Administration Fund 100,000

FY 2019 adjustments are as follows:

Fund Shift to Special Administration Fund

The budget includes a decrease of \$(100,000) from the Health Services Lottery Monies Fund and a corresponding increase of \$100,000 from the Special Administration Fund in FY 2019 for a fund shift.

In FY 2017, this line item, along with non-appropriated funds, served approximately 7,691 women and children in emergency shelters, 249 adults and children in transitional housing, and 13,079 victims with legal and lay legal advocacy.

The FY 2019 Human Services BRB authorizes the use of Special Administration Fund monies for Domestic Violence Prevention.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$22,736,400 from the Federal TANF Block Grant in FY 2019 for TANF Cash Benefits. FY 2019 adjustments are as follows:

TANF Caseload Savings

The budget includes a decrease of \$(5,000,000) from the Federal TANF Block Grant in FY 2019 to reflect a decline in caseloads in TANF Cash Benefits. FY 2018 monthly caseloads have continued to decline compared to FY 2017, even with the lifetime limit being increased from 12 to 24 months.

As of April 2018, DES served a regular TANF Cash Benefits caseload of 14,581 individual recipients. The budget assumes a regular caseload level of 14,481 per month. The average cost per person is projected to be \$94. 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 April 2018 Diversion caseload was 579. The budget assumes a Diversion caseload of 460 per month. 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.

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.

The current cumulative lifetime limit on regular TANF Cash Benefits is 24 months. 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, a recipient can accumulate only 2 penalties before being removed from the program.

The FY 2019 Human Services BRB 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 2019 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 2018.

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 2017, this funding assisted in the distribution of 8,142,157 congregate meals and 1,753,989 emergency food boxes.

One-Time Food Bank Funding

The budget includes \$1,000,000 from the General Fund in FY 2019 for One-Time Food Bank Funding. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for one-time funding for various food banks across the state. This funding will be distributed for capital needs. The enacted FY 2019 budget's 3-year spending plan designated this spending as one-time.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2019 for Tribal Pass-Through Funding. This amount is unchanged from FY 2018.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was

spending on the population when the state still had responsibility for the cash assistance program for any particular tribe.

Child Support Enforcement

The Division of Child Support Enforcement (DCSE) budget includes direct appropriations from the following 4 fund sources: 1) General Fund; 2) State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received TANF Cash Benefits; 3) Federal incentives and 4) Fees from non-custodial parents.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state. *Table 2* details the sources and uses of the CSEA Fund.

<u>Sources</u>	<u>FY 2019</u>
State Share of Retained Earnings	\$ 2,751,500
Federal Incentive Payments	6,200,000
Fees	1,769,000
Excess Appropriation Authority ^{1/} Administration (Non-Appropriated)	6,252,600
Total	2,901,800
	\$19,874,900
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,447,100
Attorney General Legal Services	2,446,900
County Participation	1,079,100
Administration (Non-Appropriated)	2,901,800
Total	19,874,900

^{1/} This line is the difference between appropriation authority and expected revenues.

County Participation

The budget includes \$8,740,200 in FY 2019 for County Participation. This amount consists of:

CSEA Fund	1,079,100
CSEA Fund (EA)	7,661,100

These amounts are unchanged from FY 2018.

The division currently contracts with Gila and La Paz Counties to have the counties operate their own child support programs. 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 2018, the Division of Developmental Disabilities served 40,882 clients, which includes 31,947 clients in the LTC program and 8,935 clients in the state-only program. The primary disabilities are shown in Table 3.

Table 3

Primary Disability of Clients Served

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	15,769	38.6%
Autism	10,307	25.2%
At Risk	9,642	23.6%
Cerebral Palsy	3,440	8.4%
Epilepsy	1,724	4.2%
Total	40,882	

Overall DDD Formula Adjustments

The budget includes an increase of \$34,066,200 from the General Fund in FY 2019 for DDD formula changes. Changes are described in further detail below. (Please see Other Issues for further details on FY 2020 and FY 2021 formula changes.)

FMAP Adjustments

The budget includes a decrease of \$(1,474,400) from the General Fund in FY 2019 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 2019, the Medicaid FMAP is projected to increase to 69.83% (0.1% increase).

FY 2019 Capitation Rate Adjustments

The budget includes an increase of \$13,958,200 from the General Fund in FY 2019 for a 3.5% net capitation rate increase beginning July 1, 2018. Capitation rates include adjustments for medical inflation, utilization of services, and other factors.

To better align DDD's appropriations with program expenses budgeted by AHCCCS actuaries, the budget includes a rebase of DDD's FY 2018 appropriations to match with the actual capitation rate by service category for FY 2018. Table 4 shows the rebase of each line item.

Table 4

DDD FY 2018 Capitation Rebase

	<u>FY 2018 Appropriation</u>	<u>Capitation Rebase</u>	<u>Revised Appropriation</u>
Administration	\$ 23,819,600	\$56,015,900	\$ 79,835,500
Premium Tax	27,628,800	1,344,200	28,973,000
Case Management	59,316,300	7,761,700	67,078,000
HCBS ^{1/}	1,130,951,200	(63,922,700)	1,067,028,500
Institutional Services	24,133,300	18,560,500	42,693,800
Medical Services	176,526,600	(3,938,200)	172,588,400
ATPC ^{2/}	15,821,400	(15,821,400)	0
	\$1,458,197,200	\$ 0	\$1,458,197,200

- 1/ Excludes One-Time Proposition 206 Assistance of \$33.0 million Total Funds, which DES is funding outside of the capitation rate.
- 2/ The actuaries do not provide a capitation rate that is specific to ATPC. As a result, ATPC expenses are funded in the Institutional Services line in the revised appropriation.

Because the actuaries use spending categories that differ from the prior budget structure, some expenses have shifted to different line items. For example, all DDD administration is included in a single line item, whereas administrative costs were previously funded within several line items. In addition, expenses for the Arizona Training Program at Coolidge have been merged into a single Institutional Services line item. The rebased FY 2018 capitation expenditures are then grown by 3.5% in each category to estimate the FY 2019 budget for each line item. Table 5 shows how the capitation adjustment is allocated by service category.

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.)

Table 5

DDD ALTCS Capitation Growth

	FY 2018 Capitation Rate ^{1/}	Assumed Growth Rate	FY 2019 Capitation Rate
Administration	203.21	3.5%	210.32
Premium Tax	73.75	3.5%	76.33
Case Management	170.74	3.5%	176.72
HCBS ^{2/}	2,809.96	3.5%	2,908.31
Institutional Care ^{3/}	108.67	3.5%	112.48
Acute Care ^{4/}	414.90	3.5%	429.42
	3,781.23	3.5%	3,913.57

^{1/} Represents blend of revised rates effective July 1, 2017, October 1, 2017, and January 1, 2018.
^{2/} HCBS line includes PMPM rates for HCBS and Risk Contingency.
^{3/} Institutional Care rate is net of client's share of cost.
^{4/} Acute care rate is net of reinsurance reimbursements from AHCCCS, and does not include Health Insurer Fee paid by DDD's subcontracted health plans.

FY 2019 Caseload Growth

The budget includes an increase of \$20,487,700 from the General Fund in FY 2019 for DD caseload changes. Compared to June 2018, LTC caseloads are expected to grow by 4.5% to 33,705 members by June 2019 (this amount excludes state-only clients).

Table 6 shows the number of clients by placement setting for DDD enrollees in June 2017, and the estimated growth in FY 2018 and FY 2019. Approximately 84.9% of clients are currently at home, and 14.5% receive services in a community-based residential setting, such as a group home or developmental home. The remaining 0.6% of clients receive services in an institution, including an intermediate care facility or a skilled nursing facility.

Table 6

DDD June Caseloads and Placement Settings

Placement	FY 17	FY 18 Est	FY 19 est
Home	26,143	27,373	28,606
Group Home	2,926	3,064	3,202
Developmental Home	1,531	1,603	1,675
Institution	191	200	209
Other ^{1/}	12	13	13
Total	30,803	32,253	33,705

^{1/} Includes behavioral health residential facilities and assisted living facilities.

Health Insurer Fee Restoration

The budget includes an increase of \$952,600 from the General Fund in FY 2019 associated with the end of the one-time moratorium on the ACA Health Insurer Fee from FY 2018. (Please see the AHCCCS narrative for additional information.)

Medicare Clawback

The budget includes an increase of \$142,100 from the General Fund in FY 2019 for adjustments associated with Medicare Clawback Payments.

Other Adjustments

In addition to formula adjustments, the budget includes the following other General Fund adjustments for DDD:

- \$15,212,700 to transfer DD Children's Rehabilitative Services from AHCCCS to DES.
- \$1,000,000 to continue and increase the one-time allocation for Proposition 206 assistance and DDD Room and Board from FY 2018.
- \$3,883,400 for Proposition 206 provider rate adjustments to annualize the January 2018 minimum wage increase and to provide 6-month funding for the January 2019 adjustment.
- \$2,400,000 for state-only case management costs.
- \$6,400,000 to replace one-time DDD equity monies used for room and board expenses of ALTCS clients in FY 2018. Beginning in FY 2019, DES must transfer all unexpended and unencumbered equity monies to the General Fund.
- \$(41,400) for statewide adjustments.

DDD Administration

The budget includes \$83,504,800 and 294.3 FTE Positions in FY 2019 for DDD Administration. These amounts consist of:

General Fund	25,151,000
Long Term Care System Fund	58,353,800

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$3,553,800 in FY 2019. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	1,030,900
Long Term Care System Fund	2,522,900

Statewide Adjustments

The budget includes an increase of \$115,500 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(7,600)
Long Term Care System Fund	123,100

Background – This line item includes funding for direct and indirect DDD administrative costs. Monies in this line

item were previously included in the DDD Operating Lump Sum, the DES Operating Budget, Case-Management - Medicaid, and Medical Services - Medicaid.

DDD Premium Tax Payment

The budget includes \$30,461,200 in FY 2019 for the DDD Premium Tax Payment. This amount consists of:

General Fund	9,190,100
Long Term Care System Fund	21,271,100

FY 2019 adjustments are as follows:

Premium Tax Growth

The budget includes an increase of \$1,488,300 in FY 2019 for growth in the premium tax. This amount consists of:

General Fund	434,000
Long Term Care System Fund	1,054,300

Background – DES pays a 2% premium tax to the Department of Insurance on capitation payments received from AHCCCS for ALTCS and Targeted Case Management.

Case Management - Medicaid

The budget includes \$70,018,100 and 1,183 FTE Positions in FY 2019 for Case Management - Medicaid. These amounts consist of:

General Fund	21,120,500
Long Term Care System Fund	48,897,600

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$2,985,800 and 34.4 FTE Positions in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. These amounts consist of:

General Fund	866,100
Long Term Care System Fund	2,119,700

Statewide Adjustments

The budget includes a decrease of \$(45,800) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(17,800)
Long Term Care System Fund	(28,000)

Background – This line item provides case managers, case aides, case management unit supervisors, and case

management area program managers that serve DDD clients enrolled in the ALTCS program. The ALTCS program requires DES to have at least 1 case manager for every 35 DD clients for each ALTCS client added since 2006.

Home and Community Based Services - Medicaid

The budget includes \$1,196,993,000 and 94.5 FTE Positions in FY 2019 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	361,131,900
Long Term Care System Fund	835,861,100

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$80,642,100 in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	23,777,700
Long Term Care System Fund	56,864,400

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$12,871,800 in FY 2019 for developmental disabilities provider rate adjustments to address cost increases associated with Proposition 206 minimum wage requirements. These adjustments were funded as part of the FY 2018 budget's 3-year spending plan. This amount consists of:

General Fund	3,883,400
Long Term Care System Fund	8,988,400

(Please see Other Issues for additional information.)

Continue One-Time Proposition 206 Assistance

The budget includes an increase of \$3,424,100 in FY 2019 to continue one-time assistance to address developmental disability provider costs associated with Proposition 206. This amount consists of:

General Fund	1,000,000
Long Term Care System Fund	2,424,100

The FY 2018 budget included \$10,000,000 from the General Fund and \$33,3036,000 Total Funds for one-time assistance to Developmental Disabilities providers for costs associated with Proposition 206 implementation. DES used the funding to make quarterly distributions to

DD providers based on their proportionate share of Proposition 206 costs.

General Fund	13,621,800
Long Term Care System Fund	31,532,800

The FY 2019 budget continues the one-time assistance from FY 2018, and increases the allocation by \$1,000,000 from the General Fund and \$3,424,100 Total Funds, increasing the total funding available for one-time assistance to \$11,000,000 from the General Fund and \$36,460,100 Total Funds. The \$36,460,100 continues to be labeled as one-time, and is therefore removed in FY 2020 in accordance with the 3-year spending plan associated with the enacted FY 2019 budget. (See *Other Issues for additional information.*)

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$1,900,500 in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	551,300
Long Term Care System Fund	1,349,200

Skilled Nursing/Assisted Living Facility Rate Increase

The budget includes an increase of \$577,000 in FY 2019 to increase provider rates for skilled nursing facilities and assisted living facilities by 3%. This amount consists of:

General Fund	174,200
Long Term Care System Fund	402,800

Statewide Adjustments

The budget includes a decrease of \$(16,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(6,500)
Long Term Care System Fund	(10,200)

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-IIDs) or other nursing facilities, both privately and state-operated.

This line item includes funding for the ICF-IIDs and the state-operated group homes (SOGHs) at ATP-C. As of April 2018, the caseload at ATP-C was 81. The FY 2019 budget transfers funding for ATP-C from its own line item to the Institutional Services - Medicaid line item to align the DDD budget structure with the capitation rates. To ensure continued transparency of the costs of the facility, an FY 2019 General Appropriation Act footnote requires DES to report to JLBC by September 1, 2019 on the costs associated with the ATP-C facility.

Statute requires DES to provide their plans for ATP-C to the JLBC for review by November 1 of each year. DES had made a preliminary assessment in 2016 that the SOGHs would not be able to attain compliance with recent federal rule changes that no longer allow group homes to be co-located with an intermediate care facility. After further review, however, the department believes that it

Statewide Adjustments

The budget includes a decrease of \$(9,500) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(3,700)
Long Term Care System Fund	(5,800)

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. *Table 7* shows the distribution of home and community-based services by service category for the top 10 most used services in FY 2017. These service categories represent approximately 80% of expenditures for Home and Community-Based Services. This line item also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C).

Table 7

FY 2017 Developmental Disabilities Home and Community-Based Services Expenditures for Top 10 Most Used Services

Service	Expenditures (\$ in M)
Group Home	\$248.7
Respite	89.3
Habilitation	88.0
Attendant Care	84.9
Day Treatment & Training	73.8
Nursing	46.3
Adult Developmental Home	44.3
Day Treatment & Training, Intense	32.7
Group Supported Employment	24.2
Independently Designated Living Arrangement	22.8
Total	\$754.9

Institutional Services - Medicaid

The budget includes \$45,154,600 and 457.7 FTE Positions in FY 2019 for Medicaid Institutional Services. These amounts consist of:

may be able to obtain a waiver from the federal government to continue operation of the SOGHs as long as ATP-C clients choose to continue to reside at ATP-C as part of a person-centered care plan. As a result, DES no longer has immediate plans to close the facility.

Children's Rehabilitative Services - Medicaid

The budget includes \$50,390,100 in FY 2019 for Children's Rehabilitative Services (CRS) - Medicaid. These amounts consist of:

General Fund	15,212,700
Long Term Care System Fund	35,177,400

FY 2019 adjustments are as follows:

Transfer Funding from AHCCCS

The budget includes an increase of \$50,390,100 in FY 2019 to transfer funding for Children's Rehabilitative Services for Developmental Disabilities clients from the Arizona Health Care Cost Containment System (AHCCCS) to DES. This amount consists of:

General Fund	15,212,700
Long Term Care System Fund	35,177,400

The CRS program provides specialized physical and behavioral health services to children with certain disabilities. Approximately 6,500 DD clients are dually eligible for the ALTCS DD program and the CRS program. Currently, these clients receive CRS services through a separate health plan that contracts with AHCCCS. As part of AHCCCS' initiative to integrate care, the FY 2019 budget transfers funding and administrative responsibility for CRS services received by DD clients to DES.

Medical Services - Medicaid

The budget includes \$197,154,900 and 35.4 FTE Positions in FY 2019 for Medical Services - Medicaid. These amounts consist of:

General Fund	59,421,400
Long Term Care System Fund	137,733,500

FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$21,407,600 in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	6,311,500
Long Term Care System Fund	15,096,100

Restore Health Insurer Fee

The budget includes an increase of \$3,163,700 in FY 2019 for the Affordable Care Act Health Insurer Fee. There was a one-time moratorium on the fee for FY 2018. This amount consists of:

General Fund	952,600
Long Term Care System Fund	2,211,100

Statewide Adjustments

The budget includes a decrease of \$(4,800) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(1,900)
Long Term Care System Fund	(2,900)

Background – DES subcontracts with AHCCCS health plans to obtain medical services for DD clients in the ALTCS program, while behavioral health services for such clients are covered by the RBHAs and financed by AHCCCS directly.

Medicare Clawback Payments

The budget includes \$4,185,100 from the General Fund in FY 2019 for Medicare Clawback Payments. FY 2019 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$142,100 from the General Fund in FY 2019 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 of the estimated drug costs.

Targeted Case Management - Medicaid

The budget includes \$6,614,500 and 76.8 FTE Positions in FY 2019 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	1,995,700
Long Term Care System Fund	4,618,800

FY 2019 adjustments are as follows:

New Line Item

The budget includes an increase of \$9,741,500 in FY 2019 to create a new line item for the Targeted Case Management program. This program was previously funded in the Case Management - State-Only line item. This amount consists of:

General Fund	2,939,000
Long Term Care System Fund	6,802,500

Caseload Ratio Increase

The budget includes a decrease of \$(3,143,200) in FY 2019 to increase the TCM Case Manager caseload ratio from 1:40 to 1:80. This amount consists of:

General Fund	(948,300)
Long Term Care System Fund	(2,194,900)

Statewide Adjustments

The budget includes an increase of \$16,200 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	5,000
Long Term Care System Fund	11,200

Background – The TCM program 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. The program is funded via capitation from AHCCCS. A monthly average of 4,577 clients received TCM services in FY 2017.

Case Management - State-Only

The budget includes \$4,313,400 and 55.8 FTE Positions from the General Fund in FY 2019 for Case Management – State-Only. FY 2019 adjustments are as follows:

Backfill Shortfall

The budget includes an increase of \$409,300 from the General Fund in FY 2019 to backfill a prior year shortfall in services.

DES previously backfilled funding shortfalls in State-Only Case Management and Targeted Case Management with excess capitation revenues (called "equity") from the DD ALTCS program. The FY 2018 Health Budget BRB (Laws 2017, Chapter 309) permitted DES to continue funding these shortfalls with equity monies on a one-time basis through June 30, 2018, subject to JLBC review. Beginning in FY 2019, DES is required to transfer all equity monies to the General Fund, so these monies are no longer available to fund case management costs. (See *Other Issues for additional information.*)

Statewide Adjustments

The budget includes a decrease of \$(8,900) from the General Fund in FY 2019 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program who are not eligible for the Targeted Case Management program. A monthly average of 3,512 DD state-only clients received case management state-only services in FY 2017.

Home and Community Based Services - State-Only

The budget includes \$13,709,000 in FY 2019 for state-only Home and Community Based Services. These amounts consist of:

General Fund	13,589,000
Special Administration Fund	120,000

FY 2019 adjustments are as follows:

Shift AzEIP Services to New Line Item

The budget includes a decrease of \$(6,319,000) from the General Fund in FY 2019 to transfer funding to a new line item for the Arizona Early Intervention Program (AzEIP). (See *Arizona Early Intervention Program below.*)

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. A monthly average of 8,089 clients were enrolled in the DD state-only program in FY 2017.

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 Effectiveness Study (CES) rate. This amount is in addition to the \$1,100,000 in the Cost Effectiveness Study Client Services line item (See *Cost-Effectiveness Study Client Services line item for additional information.*)

Cost-Effectiveness Study Client Services

Laws 2018, Chapter 346 includes \$1,100,000 from the Special Administration Fund in FY 2019 for Cost-Effectiveness Study (CES) Client Services.

The CES rate represents DES' estimate of the cost of an ALTCS DD client's care if the client were placed in an appropriate institutional setting. The federal waiver for the DD program requires a client's home and community-based services costs to be at or below the cost of an institutional setting to ensure that HCBS services are cost-neutral to the federal government. The current annual

CES rate ranges from \$162,100 to \$401,400 depending on what the appropriate institutional placement would be for the client in the absence of home and community-based services.

If ALTCS clients have HCBS costs that are at or above the CES rate, DES must either reduce services or place the client in an institutional setting to comply with the waiver. The funding in this line item is intended to provide additional services on a state-only basis to CES clients who experienced service reductions.

The \$1,100,000 appropriation is in addition to the existing \$120,000 appropriation for CES clients within the HCBS state-only line item, resulting in total state-only funding of \$1,220,000 for CES clients in FY 2019. DES projects that the \$1,220,000 is sufficient to fund a monthly average of 45 clients with an average of \$2,250 in monthly costs above the CES rate (\$27,000 annually). The \$27,000 is in addition to the \$162,100 to \$401,400 already funded through the ALTCS program for CES clients.

Chapter 346 requires the Legislature to annually inflate the CES rate based on the annual increase in the Phoenix-Mesa Consumer Price Index.

Arizona Early Intervention Program

The budget includes \$8,219,000 in FY 2019 for the Arizona Early Intervention Program (AzEIP). This amount consists of:

General Fund	6,319,000
Spinal and Head Injuries Trust Fund	1,900,000

FY 2019 adjustments are as follows:

New Line Item

The budget includes an increase of \$6,319,000 from the General Fund in FY 2019 to transfer funding for AzEIP-Only clients from the Home and Community-Based Services - State-Only line item to the AzEIP line item.

One-Time Funding

The budget includes an increase of \$1,900,000 from the Spinal and Head Injuries Trust Fund in FY 2019 associated with higher-than-budgeted screening costs in the AzEIP program. Section 4 of the FY 2019 Human Services BRB notwithstanding statute to permit Spinal and Head Injuries Trust Fund monies, which statute dedicates for rehabilitation services for individuals with spinal and head injuries, to be spent on the AzEIP program in FY 2019.

The 3-year spending plan associated with the enacted FY 2019 budget designates this funding as one-time, as DES

intends to make changes to AZEIP screening processes to reduce costs. An FY 2019 General Appropriation Act footnote requires DES to report to JLBC by December 1, 2018 on its plans to address AzEIP screening costs.

Background – AzEIP provides screening and intervention services for children age 0 to 3 with developmental delays or disabilities. DES receives a capped allotment of Federal Funds for the program through Part C of the Individuals with Disabilities Education Act (IDEA). IDEA Part C provided \$9,347,000 for AzEIP in FY 2017. As a result, the total AzEIP funding available in this line is \$17,566,000 in FY 2019. DES reports that there were 16,257 new referrals to AzEIP in FY 2017 and 4,833 referred children were determined eligible.

The funds in this line item represent costs incurred by DES for "AzEIP-Only" children, which include children that are AzEIP-eligible but do not have a qualifying DD diagnosis. AzEIP children with a DD diagnosis continue to be funded within the HCBS State-Only line item. DES reports that it expended another \$6,564,400 in the HCBS State-Only line item in FY 2017 on AzEIP services for DD-eligible children. There were 3,306 DD-eligible children enrolled in the AzEIP program as of June 30, 2017.

State-Funded Long Term Care Services

The budget includes \$34,959,600 and 2 FTE Positions in FY 2019 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	8,400,000
Long Term Care System Fund	26,559,600

FY 2019 adjustments are as follows:

Medicaid Room and Board

The budget includes an increase of \$6,400,000 from the General Fund in FY 2019 for residential room and board expenses of ALTCS-eligible DDD clients. These expenses are 100% state funded but are required to ensure access to Medicaid residential services. These monies will backfill an ongoing room and board shortfall that was funded using DDD equity monies on a one-time basis in FY 2018. The equity monies will no longer be available in FY 2019. *(Please see Other Issues for additional information.)*

Continue One-Time Room and Board Funding

The budget includes no net change in FY 2019 for a one-time provider rate increase for residential providers with room and board expenses. The enacted FY 2018 budget included a one-time appropriation of \$2,000,000 from the General Fund for a room and board provider rate increase of 6.5% in FY 2018. The FY 2019 budget continues this

increase in FY 2019 on a one-time basis. (Please see Other Issues for additional information.)

Statewide Adjustments

The budget includes a decrease of \$(1,900) from the Long Term Care System Fund (Non-Federal Matched) in FY 2019 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.

Employment and Rehabilitation Services

JOBS

The budget includes \$11,005,600 and 93 FTE Positions in FY 2019 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 are unchanged from FY 2018.

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 8 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	253,900
Total	\$11,005,600

Child Care Subsidy

The budget includes \$98,396,600 from the Federal CCDF Block Grant in FY 2019 for child care subsidies. FY 2019 adjustments are as follows:

Fund Shift from TANF to CCDF

The budget includes a decrease of \$(2,717,800) from Federal TANF Block Grant monies and a corresponding increase of \$2,717,800 from the Federal CCDF Block Grant funds because of increased CCDF funding from the federal

government as part of the Consolidated Appropriations Act of 2018. The freed-up TANF monies are appropriated in the Department of Child Safety (DCS).

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.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be \$350 per month in FY 2018 and the average subsidy for the DCS population is projected to be \$406 per month. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa rate, this \$2.00 co-payment would account for 7.5% of the total cost of care (with the state paying the other 92.5%). By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 37.6% of the child’s child care costs.

Caseloads – The estimated average number of children receiving child care services in FY 2019 is projected to be 19,100 (see Table 9) excluding DCS-related child care. As of April 2018, approximately 2,196 children are on the waiting list. It is unknown how many of those children remain eligible.

As session law, the FY 2019 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.

<u>Category</u>	<u>FY 17</u>	<u>FY 18 est</u>	<u>FY 19 est 1/</u>
TANF	1,973	2,200	2,300
Low-Income Working	12,374	12,100	11,800
Transitional Child Care	<u>4,990</u>	<u>4,800</u>	<u>5,000</u>
Total Served	19,337	19,100	19,100

1/ FY 2019 numbers are DES estimates.

Rehabilitation Services

The budget includes \$7,249,100 in FY 2019 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 2018.

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 11,151 clients at an average Total Funds cost of \$15,422 per client.

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 2019 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 2018.

Background – 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.

The Independent Living Rehabilitation Services program is expected to serve up to 556 clients in FY 2019 at an average Total Funds cost per client of \$3,470. In addition to these clients, the division is also expected to serve 90 Independent Living clients at an average annual cost of \$4,870 per client using federal Social Services Block Grant monies.

Workforce Investment Act Services

The budget includes \$53,654,600 from the Workforce Investment Act (WIA) Grant in FY 2019 for the Workforce Investment Act Services line item. This amount is unchanged from FY 2018.

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, 85% is allocated to local governments and 15% 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 2019 is shown in *Table 10*.

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$53,654,600
Operating Budget	2,379,900
AG Legal Services	<u>10,000</u>
Total	\$56,044,500

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Fund Transfers
- Proposition 206

- State-Funded Long Term Care Services
- DDD 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 \$32.2 million in FY 2020 above FY 2019 and \$47.2 million in FY 2021 above FY 2020 based on:

- 4.5% caseload growth in FY 2020 and FY 2021, resulting in caseloads of 35,221 and 36,806 in June 2020 and June 2021, respectively.
- FMAPs of 69.81% in FY 2020 and FY 2021, respectively.
- 3.5% capitation growth for utilization and medical inflation in FY 2020 and FY 2021.
- An increase of \$5.8 million in FY 2020 above FY 2019 and \$3.9 million in FY 2021 above FY 2020 for additional Proposition 206 minimum wage costs.
- A decrease of \$(13.0) million in FY 2020 to remove one-time funding for Proposition 206 Assistance and Room and Board
- A decrease of \$(1.0) million in FY 2020 to remove one-time Food Bank Funding

Fund Transfers

The budget includes the following transfer from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
Special Administration Fund	\$0	\$11,000

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.

As shown in *Table 11*, the FY 2018 budget included \$23.3 million from the General Fund and \$72.6 million in Total Funds in FY 2018 for ongoing provider rate increases associated with Proposition 206. DES has used this funding for the following adjustments:

- Annualize HCBS rate increases of up to 8.2% from January 2017.
- 1.7% increase in July of 2017 to address costs associated with Proposition 206 paid sick leave requirements. Providers in the Flagstaff area received an increase of 3.3% to address the Proposition 414 minimum wage increase to \$10.50 per hour.
- 1.2% increase in January 2018 to address the minimum wage increase from \$10.00/hour to \$10.50/hour.

The FY 2018 budget also included \$12.0 million from the General Fund (\$35.0 million Total Funds) for one-time assistance for DD providers. DES used \$10.0 million from the General Fund (\$33.0 million Total Funds) for quarterly distributions to DD providers in proportion to their reported compliance costs with Proposition 206 through the end of FY 2018. The FY 2018 General Appropriation Act designated the remaining \$2.0 million from the General Fund for a one-time increase for DD residential room and board rates, which was sufficient for a 6.5% rate increase in FY 2018.

The FY 2019 budget includes an increase of \$3.9 million from the General Fund (\$12.9 million Total Funds) in FY 2019 to annualize the cost of the ongoing 1.2% rate increase from January 2018 and fund additional rate adjustments when the minimum wage increases to \$11.00 in January 2019, increasing the ongoing appropriations for Proposition 206 to \$27.2 million from the General Fund (\$85.4 million Total Funds) in FY 2019 relative to the original FY 2017 budget.

Table 11

DES Appropriations for Proposition 206 Costs

	<u>FY 2018</u>		<u>FY 2019 Above FY 2018</u>		<u>FY 2019 Total</u>	
	<u>General Fund</u>	<u>Total Funds</u>	<u>General Fund</u>	<u>Total Fund</u>	<u>General Fund</u>	<u>Total Fund</u>
Ongoing	23,307,100	72,568,900	3,883,400	12,871,800	27,190,500	85,440,700
One-Time	<u>12,000,000</u>	<u>35,036,000</u>	<u>1,000,000</u>	<u>3,424,100</u>	<u>13,000,000</u>	<u>38,460,100</u>
Total	35,307,100	107,604,900	4,883,400	16,295,900	40,190,500	123,900,800

The FY 2019 budget also continues the one-time Proposition 206 assistance and \$2.0 million of room and funding from FY 2018, and increases the allocation for one-time Proposition 206 assistance to \$11.0 million from the General Fund (\$36.5 million Total Funds), resulting in total one-time funding of \$13.0 million from the General Fund (\$38.5 million Total Funds) in FY 2019.

A footnote in the FY 2018 General Appropriation Act required 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. The study found that Proposition 206 "has not had a significant direct impact to date on access to services," but has "added fiscal stress to providers." DD providers experienced wage increases for direct care workers ranging from 6.1% to 8.6% for HCBS. DD providers also reported high turnover and challenges in filling vacancies.

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.

Table 12 shows the structural shortfall in SFLTC in FY 2017, and estimated shortfalls in FY 2018 and FY 2019. 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 included, 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.

After accounting for the \$14.5 million in reviewed expenditures, the Auditor General reported that DES had an ending balance of \$17.6 million in the Long Term Care System Fund as of the end of FY 2017. In June 2018, DES proposed spending another \$13.0 million in equity monies to address its FY 2018 shortfall, which should reduce the ending balance to \$4.6 million.

The budget assumes that, beginning in FY 2019, the General Fund will replace equity expenditures for state-only costs. This includes \$6.4 million for room and board costs of ALTCs clients in residential placements and \$2.4 million for state-only case management expenses.

Table 12

State-Funded Long Term Care (SFLTC) Services Line Item Sources and Uses ^{1/}

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Sources			
Client Billing	\$22,719,300	\$23,928,000	\$24,155,200
Interest	1,372,800	1,372,800	1,372,800
One-Time Appropriations ^{2/}	600,000	2,000,000	2,000,000
Other	69,600	0	0
Equity Transfer ^{3/}	4,263,400	6,100,000	0
Budget Adjustment ^{4/}	0	0	6,400,000
Total	\$29,025,100	\$33,400,800	\$33,928,000
Uses			
SFLTC Services ^{1/}	29,918,500	32,834,400	33,942,600
Total	\$29,918,500	\$32,834,400	\$33,942,600
Structural Balance ^{1/}	\$ (5,156,500)	\$(5,533,600)	\$ (14,600)

- ^{1/} Estimates are not directly comparable to the appropriation in the SFLTC line. Ending balance will not be negative.
- ^{2/} The \$2,000,000 appropriation in FY 2018 was used for a one-time 6.5% room and board provider rate increase for DD residential service providers. The FY 2019 budget continues the 6.5% increase on a one-time basis in FY 2019.
- ^{3/} The JLBC favorably reviewed DES' plans to expend \$4,263,400 on the SFLTC shortfall in FY 2017. In FY 2019, these monies will no longer be available. These monies are not counted in the structural balance calculation.
- ^{4/} The budget includes an increase of \$6,400,000 from the General Fund in FY 2019 to eliminate the structural shortfall in SFLTC in FY 2019.

DDD 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. As a result of large transfers of funding across DDD line items from prior years, a footnote in the FY 2019 General Appropriation Act requires DES to submit a report

for review to the JLBC before transferring any money in or out of select line items in the DDD budget.

The budget includes a rebase of DDD's line items in FY 2019 to correspond with the expenditures by service category estimated by AHCCCS actuaries. The resources allocated by line item should closely mirror DDD's actual costs for each service because capitation rates are required by federal regulation to be actuarially sound. As a result, the rebase should minimize DES' need to transfer resources across line items in future years.

Federal TANF Block Grant

The budget appropriates \$222.6 million of the state's Federal TANF Block Grant allocation in FY 2019. *Table 13* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

Table 13

TANF Block Grant Spending

Revenues	Actual FY 2017	Estimate FY 2018	Estimate FY 2019
Beginning Balance	\$ 1,104,700	\$ (742,200)	\$ -
TANF Base Revenues	200,934,900	200,934,900	200,934,900
TANF Contingency Fund Revenues	19,655,600	19,655,600	19,655,600
Total TANF Available	\$ 221,695,200	\$ 219,848,300	\$ 220,590,500
Expenditures			
Department of Child Safety			
DCS Operating	\$ 16,928,000	\$ 16,928,000	\$ 16,958,500
Line Items			
Caseworkers	30,000,000	30,000,000	30,050,100
Attorney General Legal Services	99,400	99,400	99,700
Inspections Bureau	549,700	549,700	550,700
Overtime	3,859,500	3,859,500	3,866,400
Adoption Services	20,445,700	20,445,700	23,163,500
Congregate Group Care	16,423,000	16,423,000	21,423,000
Foster Home Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,943,000	1,943,000	1,943,000
In-Home Mitigation	5,911,200	5,911,200	5,911,200
Out-of-Home Support Services	46,340,100	46,340,100	46,340,100
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 149,472,700	\$ 149,472,700	\$ 157,279,300
Department of Economic Security			
DES Operating	\$ 18,856,400	\$ 20,315,500	\$ 20,393,300
Line Items			
Administration			
Attorney General Legal Services	106,100	106,100	106,300
Adult and Aging Services			
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,620,700	6,620,700	6,620,700
Benefits and Medical Eligibility			
TANF Cash Benefits <u>1/</u>	27,736,400	27,736,400	22,736,400
Coordinated Hunger Program	500,000	500,000	500,000
Employment and Rehabilitative Services			
JOBS	8,405,800	9,594,700	9,594,700
Child Care Subsidy	2,717,800	2,717,800	-
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 70,316,700	\$ 72,964,700	\$ 65,324,900
FY 2017 Administrative Adjustments <u>1/</u>	\$ 2,648,000		
TOTAL - STATEWIDE	\$ 222,437,400	\$ 222,437,400	\$ 222,604,200
Ending Balance <u>2/</u>	\$ (742,200)	\$ (2,589,100)	\$ (2,013,700)

1/ As estimated by the agency.

2/ Actual Ending Balance will not be negative.

State Board of Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	6.0	6.0
Personal Services	353,500	473,500	473,500
Employee Related Expenditures	102,000	150,000	142,700
Professional and Outside Services	150,200	165,000	165,000
Travel - In State	5,500	20,500	20,500
Travel - Out of State	12,300	20,000	20,000
Other Operating Expenditures	352,100	300,000	300,000
Equipment	109,600	24,600	24,600
AGENCY TOTAL	1,085,200	1,153,600	1,146,300 ^{1/}
FUND SOURCES			
General Fund	921,700	1,153,600	1,146,300
<u>Other Appropriated Funds</u>			
Teacher Certification Fund	163,500	0	0
SUBTOTAL - Other Appropriated Funds	163,500	0	0
SUBTOTAL - Appropriated Funds	1,085,200	1,153,600	1,146,300
TOTAL - ALL SOURCES	1,085,200	1,153,600	1,146,300

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 \$1,146,300 and 6 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(7,300) from the General Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	171.9	171.9	195.9 ^{1/}
Personal Services	4,390,600	4,545,300	4,545,300
Employee Related Expenditures	1,491,100	1,608,100	1,602,000
Professional and Outside Services	1,434,600	3,730,900	3,730,900
Travel - In State	22,300	23,600	23,600
Travel - Out of State	18,300	25,800	25,800
Other Operating Expenditures	4,038,600	4,396,300	4,516,100
Equipment	122,500	55,400	55,400
OPERATING SUBTOTAL	11,518,000	14,385,400	14,499,100 ^{2/-5/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,822,372,500	3,917,422,400 ^{6/}	4,462,121,900 ^{7/-13/}
State Aid Supplement	50,000,000	50,000,000	50,000,000 ^{14/-15/}
Additional Teacher Salary Increase	0	34,000,000	0
Results-Based Funding	0	37,600,000 ^{6/}	38,600,000
Rural Assistance	0	2,600,000	0
Special Education Fund	32,242,100	32,242,100	25,529,200
Other State Aid to Districts	212,700	983,900	983,900
Current-Year Funding Backfill	31,000,000	0	0
Former District-Sponsored Charter Schools	1,148,000	0	0
Classroom Site Fund	480,754,800	530,818,900	574,995,000 ^{16/}
Instructional Improvement Fund	56,782,100	45,000,000	45,000,000 ^{17/}
Property Tax Relief			
Additional State Aid	397,230,700	410,546,000	413,665,500
Non-Formula Programs			
Accountability and Achievement Testing	16,420,800	16,423,700	16,422,500 ^{18/-19/}
Adult Education	4,498,100	4,636,500	4,634,400
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	3,000,000	0
Code Writers Initiative Pilot Program	500,000	0	500,000 ^{20/}
College Credit by Examination Incentive Program	0	5,000,000	5,000,000
Computer Science Pilot Program	0	0	1,000,000
Early Literacy	0	8,000,000	12,000,000
Education Learning and Accountability System	0	0	5,300,000
English Learner Administration	6,495,000	6,519,000	6,509,500 ^{21/}
Geographic Literacy	100,000	100,000	100,000
Gifted Education	0	0	1,000,000
Jobs for Arizona Graduates	0	100,000	100,000
JTED Completion Grants	0	1,000,000	1,000,000 ^{22/-24/}
JTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 ^{25/}
School Safety Program	11,445,600	11,947,600	11,946,900 ^{26/}
State Block Grant for Vocational Education	11,411,000	11,576,300	11,576,300
Teacher Certification	1,936,500	2,404,300	2,387,000
Teacher Professional Development Pilot	0	300,000	0
Tribal College Dual Enrollment Program Fund	123,000	250,000	250,000
AGENCY TOTAL	4,942,651,300	5,153,316,500	5,711,581,600 ^{27/-30/}

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
FUND SOURCES			
General Fund	4,079,045,400	4,227,258,400	4,704,652,000
<u>Other Appropriated Funds</u>			
Automation Projects Fund	0	3,000,000	0
Budget Stabilization Fund	0	2,600,000	0
Department of Education Empowerment Scholarship Account Fund	797,900	1,202,000	1,246,100
Department of Education Professional Development Revolving Fund	249,400	2,700,000	2,700,000
Permanent State School Fund	219,804,200	235,343,500	277,115,300
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	500,000	0	500,000
Teacher Certification Fund	1,814,000	2,363,200	2,342,700
Tribal College Dual Enrollment Program Fund	123,000	250,000	250,000
SUBTOTAL - Other Appropriated Funds	230,288,500	254,458,700	291,154,100
SUBTOTAL - Appropriated Funds	4,309,333,900	4,481,717,100	4,995,806,100
<u>Expenditure Authority Funds</u>			
Proposition 301	480,047,800	504,629,900	531,057,900
Proposition 301/Classroom Site Fund - Land Trust	96,487,500	83,093,400	103,425,500
Proposition 301/Classroom Site Fund - Carryforward	0	38,876,100	36,292,100
Tribal Gaming	56,782,100	45,000,000	45,000,000
SUBTOTAL - Expenditure Authority Funds	633,317,400	671,599,400	715,775,500
SUBTOTAL - Appropriated/Expenditure Authority Funds	4,942,651,300	5,153,316,500	5,711,581,600
Other Non-Appropriated Funds	31,625,800	28,682,900	28,682,900
Federal Funds	1,141,087,700	1,158,886,800	1,158,886,800
TOTAL - ALL SOURCES	6,115,364,800	6,340,886,200	6,899,151,300

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. ADE currently oversees 236 school districts, accommodation districts and Joint Technological Education Districts and 435 charter schools in their provision of public education from preschool through grade 12.

- 1/ Includes 88.5 GF and 37.4 OF FTE Positions funded from Special Line Items in FY 2019.
- 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/ Any monies available to the Department of Education pursuant to A.R.S. § 42-5029E, paragraph 8, for the Failing Schools Tutoring Fund established by A.R.S. § 15-241, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 8. (General Appropriation Act footnote)
- 5/ Any monies available to the Department of Education pursuant to A.R.S. § 42-5029E, paragraph 6, for character education matching grants pursuant to A.R.S. § 15-154.01, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 6. (General Appropriation Act footnote)
- 6/ Notwithstanding A.R.S. § 15-901.03, the Superintendent of Public Instruction may transfer up to \$1,600,000 from the state General Fund appropriation for Basic State Aid for FY 2018 to the Results-Based Funding program for FY 2018 without review by the Joint Legislative Budget Committee. Any amount transferred to the Results-Based Funding program under this section that exceed the amount needed to address a funding shortfall for the Results-Based Funding program for FY 2018 reverts to the state General Fund on June 30, 2018. (General Appropriation Act footnote)
- 7/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2017, Chapter 305. Laws 2018, Chapter 276 also appropriates \$930,727,700 in FY 2020 to reflect the deferral of FY 2019 payments.
- 8/ The above appropriation provides basic state support to school districts for maintenance and operations funding as provided by A.R.S. § 15-973, and includes an estimated \$277,115,300 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2019. (General Appropriation Act footnote)
- 9/ Monies derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid shall be expended, whenever possible, before the expenditure of state General Fund monies. (General Appropriation Act footnote)
- 10/ Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, income from the investment of permanent state school funds as prescribed by the Enabling Act and the Constitution of Arizona and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure may not be made except as specifically authorized above. (General Appropriation Act footnote)

- 11/ Any monies available to the Department of Education pursuant to A.R.S. § 42-5029E, paragraph 5, for the increased cost of Basic State Aid due to added school days in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 5. (General Appropriation Act footnote)
- 12/ The Basic State Aid appropriation for FY 2019 includes a state General Fund increase of \$273,706,100, which the Legislature and Governor intend to be used for teacher salary increase. (General Appropriation Act footnote)
- 13/ A school district or other entity that receives additional funding in FY 2019, FY 2020 and FY 2021 as a result of this act may use the additional monies for increased teacher compensation in FY 2019, FY 2020 and FY 2021. (General Appropriation Act footnote)
- 14/ 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.
- 15/ 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)
- 16/ Any monies available to the Department of Education for the Classroom Site Fund pursuant to A.R.S. § 37-521B, paragraph 4 and A.R.S. § 42-5029E, paragraph 10, in excess of expenditure authority amounts are allocated for the purposes of A.R.S. § 37-521B, paragraph 4 and A.R.S. § 42-5029E, paragraph 10. (General Appropriation Act footnote)
- 17/ Any monies available to the Department of Education from the Instructional Improvement Fund established by A.R.S. § 15-979, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 15-979. (General Appropriation Act footnote)
- 18/ 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)
- 19/ Any monies available to the Department of Education for accountability purposes pursuant to A.R.S. § 42-5029E, paragraph 7, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 7. (General Appropriation Act footnote)
- 20/ Laws 2018, Chapter 290 appropriated \$500,000 from the State Web Portal Fund for the Code Writers Initiative Pilot Program.
- 21/ 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)
- 22/ 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)
- 23/ 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)
- 24/ The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations through FY 2020. (General Appropriation Act footnote)
- 25/ 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)
- 26/ Any monies available to the Department of Education for school safety pursuant to A.R.S. § 42-5029E, paragraph 6, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 6. (General Appropriation Act footnote)
- 27/ After review by the Joint Legislative Budget Committee, in FY 2019, the department may use a portion of its FY 2019 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 2018. (General Appropriation Act footnote)
- 28/ 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)
- 29/ 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)
- 30/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

ADE's FY 2019 General Fund spending increases by \$477,393,600, or 11.3% above the FY 2018 appropriation. The budget includes prior year base adjustments, current law formula adjustments, a non-formula change, the elimination of one-time funding from FY 2018, and funding for policy changes:

Prior Year Base Adjustments

- An increase of \$9,533,200 for higher-than-budgeted Homeowner's Rebate and 1% Cap costs for FY 2018 ("base adjustment").
- A decrease of \$(1,688,400) for lower-than-budgeted costs for an Additional Teacher Salary Increase for FY 2018.
- An increase of \$1,000,000 for higher-than-budgeted costs for Results-Based Funding for FY 2018.

Current Law Formula Adjustments

- An increase of \$84,010,000 for 1.15% Average Daily Membership (ADM) growth in FY 2019.
- An increase of \$104,941,100 for a 1.8% inflator.
- A decrease of \$(53,142,800) for local property tax growth due to new construction offset by Homeowner’s Rebate impact of \$12,539,000.
- An increase of \$600,000 for property tax statutory changes.
- A decrease of \$(41,260,700) to offset higher available endowment earnings under Proposition 123, including \$(24,903,500) due to expiring School Facilities Board debt service.
- An increase of \$262,400 for Empowerment Scholarship Accounts (ESAs).
- A decrease of \$(8,000,000) from a one-time appropriation of surplus Special Education Fund monies to Basic State Aid.
- An increase of \$33,107,500 for an additional 1.06% teacher salary increase.

The current law formula adjustments total to \$133,056,500.

Non-Formula Change

- An increase of \$4,000,000 for Early Literacy (already appropriated for FY 2019 by Laws 2017, Chapter 305).

Eliminate One-Time Funding

- A decrease of \$(300,000) to eliminate one-time funding for a teacher professional development pilot program.
- A decrease of \$(300,000) to eliminate one-time funding to a school district affected by temporary enrollment losses due to natural disasters.
- An increase of \$59,300 for standard changes.

Policy Changes

- An increase of \$100,000,000 to increase Additional Assistance.
- An increase of \$176,200,000 for additional teacher salary increases.
- A recurring one-time increase of \$64,100,000 for "Proposition 301 Bridge" (additional teacher salary increases) until FY 2022.
- An increase of \$1,585,700 for teacher salary increases in state agencies, such as the Arizona State Schools for the Deaf and the Blind (ASDB).
- An increase of \$1,800,000 to fully fund large Joint Technical Education Districts (JTEDS).
- A decrease of \$(18,952,700) for 1% Cap/secondary property tax changes.
- An increase of \$5,300,000 for information technology funding.

- An increase of \$1,000,000 for a computer science pilot program.
- A one-time increase of \$1,000,000 for Gifted Education.

The policy changes total to \$332,033,000.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$386,246,600 in FY 2020 above FY 2019 and \$384,474,400 in FY 2021 above FY 2020. *(See Other Issues for more information.)*

As a new change for FY 2019, the budget displays monies that the department receives from Proposition 301 and Indian gaming as “Expenditure Authority” funds for greater transparency. Previously they were included in overall totals for the department's non-appropriated funds, so were not separately delineated. This change does not affect the department’s access to funding from these sources, as new footnotes in the General Appropriation Act allow it to spend whatever funding is available to it from them *(see footnotes 4, 5, 11, 16, 17, 19 and 26 in agency summary table).*

The agency summary table displays Expenditure Authority for affected line items for FY 2017 and FY 2018 for comparability with FY 2019.

Operating Budget

The budget includes \$14,499,100 and 70 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$8,851,500
Department of Education Empowerment Scholarship Account Fund	1,246,100
Department of Education Professional Development Revolving Fund	2,567,700
Teacher Certification Fund	133,800
Proposition 301 Expenditure Authority	1,700,000

FY 2019 adjustments are as follows:

ESA Administration

The budget includes no change in funding from the Department of Education Empowerment Scholarship Account Fund (DEESAF) in FY 2019 for administration of the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This provides the department with \$1,246,100 in ESA administration funding for FY 2019, including funding for statewide adjustments described below.

The DEESAF 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, which for FY 2019 would be as much as \$3,795,900 (an estimated \$75,918,600 in ESA costs for FY 2019 X 5%).

A.R.S. § 15-2402C requires ADE to transfer 1/5th of the 5% to the State Treasurer to fund the latter's costs for ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. *(See State Treasurer budget for State Treasurer's ESA administration funding.)*

In addition, Laws 2017, Chapter 139 establishes a new Department of Revenue Empowerment Scholarship Account Fund (DRESAF) and requires the department to transfer 1/5th of the 5% to the DRESAF annually to fund new ESA administrative duties assigned to the Department of Revenue (DOR) by that legislation. Apart from Chapter 139, the FY 2018 General Appropriation Act appropriated \$50,000 in ESA administration funding from the DRESAF for FY 2019. The establishment of the DRESAF is on hold, however, because Laws 2017, Chapter 139 is suspended due to a citizens' referendum pursuant to A.R.S. § 19-101. *(See DOR budget narrative for more information.)*

(See Empowerment Scholarship Accounts policy issue under Basic State Aid for more information regarding Empowerment Scholarship Account Administration.)

Proposition 301

The budget includes no change in funding from Proposition 301 Expenditure Authority for the department's operating budget for FY 2019. This provides the department's operating budget with \$1,700,000 in Proposition 301 funding for FY 2019. The \$1,700,000 total includes \$1,500,000 for the Failing Schools Tutoring Fund and \$200,000 for Character Education, as allocated by Proposition 301 (A.R.S. § 42-5029E). *(See Summary narrative for more information on Expenditure Authority.)*

Statewide Adjustments

The budget includes an increase of \$113,700 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	70,900
Department of Education Empowerment Scholarship Account Fund	44,100
Teacher Certification Fund	(1,300)

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$4,462,121,900 in FY 2019 for Basic State Aid. This amount consists of:

General Fund	4,098,726,100
Permanent State School Fund	277,115,300
Proposition 301 Expenditure Authority	86,280,500

The \$4,462,121,900 total does not include local property taxes that will help fund K-12 formula costs for FY 2019, as they are non-appropriated *(see Table 1)*. In addition, it excludes separately-appropriated monies for the State Aid Supplement established by Proposition 123 and for programs such as Results-Based Funding, Early Literacy and the College Credit by Examination Incentive Program, as they are appropriated through separate line items apart from Basic State Aid.

(See Other Issues for background information regarding the Basic State Aid formula.)

FY 2019 adjustments are as follows:

Eliminate One-Time Supplemental

The budget includes a decrease of \$(300,000) from the General Fund in FY 2019 to eliminate one-time supplemental funding for a school district that experienced temporary enrollment declines in FY 2018 due to natural disasters.

Enrollment Growth

The budget includes an increase of \$84,010,000 from the General Fund in FY 2019 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.15% in FY 2019 *(see Table 2)*. It further assumes a cost of \$4,860,000 for district growth (900 new students X \$5,400 average formula cost per student) and \$79,150,000 for charter growth (11,814 students X \$6,700 average formula cost per student) based on recent trends.

1.8% Inflation Adjustment

The budget includes an increase of \$104,941,100 from the General Fund in FY 2019 for a 1.8% 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 1.8% inflation adjustment increases the base level by \$66.30. In addition, the budget increases the base level by an additional \$210.50 for teacher salary increases, as discussed separately below. Together they increase the

Table 1
FY 2019 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2018 Appropriation	\$3,595,798,400
Eliminate One-Time Supplemental	(300,000)
Enrollment Growth @ 1.15%	84,010,000
1.8% Inflater	104,941,100
Property Taxes from New Construction	(53,142,800)
Property Tax - Statutory Changes	600,000
Endowment Earnings	(41,260,700)
Additional Assistance	100,000,000
Teacher Salary Increase - Move Original 2.12%	65,419,100
Teacher Salary Increase - Additional Funding	176,200,000
Teacher Salary Increase - Bridge to Prop 301	64,100,000
Teacher Salary Increase - DOC, DJC & misc	298,600
Large JTEDs	1,800,000
Empowerment Scholarship Accounts	262,400
FY 2019 budget	\$4,098,726,100
Permanent State School Fund	
FY 2018 Appropriation	\$ 235,343,500
Estimated FY 2019 Growth ^{1/}	41,771,800
FY 2019 budget	\$ 277,115,300
Prop 301 Sales Tax (no change) ^{2/}	\$ 86,280,500
Local Property Taxes ^{2/}	
FY 2018 Base - estimated	\$2,479,585,700
Property Taxes from New Construction	48,937,400
Non-State Aid DAA Increase	7,000,000
Non-State Aid Base Level Increases	21,400,300
FY 2019 Estimated ^{3/}	\$2,556,923,400
Grand Total (all sources) ^{4/ 5/}	\$7,019,045,300

- ^{1/} Includes \$24,903,500 used in prior years for debt service on now-retired School Facilities Board bonds.
- ^{2/} Non-appropriated, so excluded from appropriated totals.
- ^{3/} An estimated \$413,665,500 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
- ^{4/} Statutory formula cost would be approximately \$295,0298,800 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.
- ^{5/} Does not include \$50,000,000 for State Aid Supplement, as it is appropriated to a separate line item apart from Basic State Aid. Also excludes separately appropriated funding for programs such as Results-Based Funding, Early Literacy, and the College Credit by Examination Incentive Program.

base level to \$3,960.07 versus \$3,683.27 for FY 2018, which is a total increase of 7.52%.

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 2019 adjustment of 1.8% equals the currently estimated GDP price deflator for calendar year 2017. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of

Table 2

Fiscal Year	K-12 ADM (unweighted) ^{1/}				% Change
	District ^{2/}	Charter ^{3/}	Total	Change	
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	920,209	159,032	1,079,241	14,163	1.3%
2016	920,358	164,588	1,084,946	5,705	0.5%
2017	915,614	179,622	1,095,236	10,290	0.9%
2018 est	916,540	193,008	1,109,548	14,312	1.3%
2019 est	917,440	204,822	1,122,262	12,714	1.15%
2020 est	918,384	218,322	1,136,706	14,444	1.3%
2021 est	919,335	231,822	1,151,157	14,451	1.3%

^{1/} Actuals for FY 2012 through FY 2017 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.

\$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 \$(53,142,800) from the General Fund in FY 2019 due to a projected 2.1% increase in statewide Net Assessed Value (NAV) from new construction in FY 2019. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$53,142,800 in FY 2019. It also will decrease state costs by \$(53,142,800), 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") currently is estimated to increase by 2.82% in FY 2019, resulting in a net 4.92% NAV increase for new construction and existing property combined for FY 2019.

The projected 2.82% NAV increase for existing property will not affect net QTR or SETR collections in FY 2019 because A.R.S. § 41-1276 (the "Truth in Taxation" or "TNT" law) requires the QTR and SETR to be adjusted each year to offset NAV changes for existing properties. As a result, the QTR will decrease to \$3.94 (from \$4.05 currently) and the SETR will decrease to \$0.4741 (from \$0.4875 currently) in FY 2019 to offset the estimated 2.82% NAV increase for existing property (see Table 3).

TNT Tax Rates			
Tax Rate	FY 2018	FY 2019	
Qualifying Tax Rate (QTR)			
• High School districts and elementary districts located within a high school district	\$2.0234	\$1.9679	
• Unified districts and elementary districts not located within a high school district	\$4.0468	\$3.9358	
• State Equalization Tax Rate (SETR)	\$0.4875	\$0.4741	

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.)

Property Tax Statutory Changes

The budget includes an increase of \$600,000 from the General Fund in FY 2019 for property tax statutory changes. Laws 2017, Chapter 340 expands accelerated depreciation provisions in A.R.S. § 42-13054 to include Class 6 personal property located within a foreign trade zone or military reuse zone. The reduction to statewide net assessed valuation under Chapter 340 will increase General Fund costs for state aid to school districts by an estimated \$600,000 annually starting in FY 2019.

Endowment Earnings Growth

The budget includes a decrease of \$(41,260,700) from the General Fund and an increase of \$41,771,800 from the Permanent State School Fund in FY 2019 for endowment earnings funding for Basic State Aid. The General Fund savings assumes that K-12 endowment earnings for Basic State Aid from the State Land Department and State Treasurer combined under Proposition 123 will equal \$276,604,200 for FY 2019, which would be \$41,260,700 more than the \$235,343,500 total assumed for FY 2018. The Permanent State School Fund increase factors in an additional \$511,100 savings under revised data (see Table 4).

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. Starting in FY 2019, however, the entire \$72,263,000 will be available to fund Basic State Aid because the affected SFB bonds will be paid off by the end of FY 2018. This will increase by \$24,903,500 the amount of K-12 Endowment Earnings available to fund Basic State Aid starting in FY 2019 (see Table 4).

Estimated K-12 Endowment Earnings for Basic State Aid ^{1/}			
Source	FY 2018	FY 2019	Change
Original 2.5% ^{2/3/}	\$47,359,500	\$72,263,000	\$24,903,500
New 4.4% ^{3/}	<u>187,984,000</u>	<u>204,852,300</u>	<u>16,868,300</u>
Total	\$235,343,500	\$277,115,300	\$41,771,800

^{1/} K-12 Endowment Earnings also helped fund School Facilities Board (SFB) debt service through FY 2018 and the Classroom Site Fund (see Table 12).

^{2/} The "Change" is due to K-12 Endowment Earnings no longer being needed to fund debt service on SFB bonds after FY 2018.

^{3/} 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.)

Rollover

The budget includes no change from the General Fund in FY 2019 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2019) state aid payments until the following fiscal year (now FY 2020).

The FY 2019 rollover will affect only school districts with more than 600 students, as has been the policy since FY 2013. The budget continues to exempt small districts from the K-12 rollover in FY 2019, which continues it at the \$930,727,700 level.

Laws 2017, Chapter 305 advance appropriated \$930,727,700 from the General Fund in FY 2019 to fund the \$930,727,700 deferred obligation from FY 2018. Those monies, therefore, do not appear in the FY 2019 General Appropriation Act (Laws 2018, Chapter 276). Chapter 276, however, advance appropriates \$930,727,700 from the General Fund in FY 2020 to fund the deferred FY 2019 obligation.

Additional Assistance

The budget includes an increase of \$100,000,000 from the General Fund in FY 2019 for Additional Assistance. These monies will partially restore district additional assistance (DAA) and charter additional assistance (CAA) funding that has been suspended since FY 2010. It will increase DAA funding by \$94,972,800 and CAA funding by \$3,407,200

for a total combined increase of \$100,000,000 for FY 2019.

DAA suspensions began at \$(144,000,000) for FY 2010, but increased to \$(352,442,700) for FY 2016, where they remained through FY 2018. CAA suspensions began at \$(10,000,000) for FY 2011, but increased to \$(18,656,000) for FY 2016, where they likewise remained through FY 2018.

The budget decreases the DAA and CAA suspensions to \$(257,469,900) and \$(13,628,800), respectively, for FY 2019 (see Tables 5 & 6). In addition, Sections 27 and 28 of the K-12 Education BRB phase out the remaining DAA and CAA suspensions by FY 2023 (see Tables 5 & 6).

Table 5

DAA Suspensions & Restorations Through FY 2023 ^{1/}

<u>Fiscal Year</u>	<u>Prior Year Suspension</u>	<u>Restoration</u>	<u>Current Year Suspension</u>
2019	(352,442,700)	94,972,800	(257,469,900)
2020	(247,469,900)	64,367,400	(193,102,400)
2021	(193,102,400)	64,367,400	(128,734,900)
2022	(128,734,900)	64,367,400	(64,367,400)
2023	(64,367,400)	64,367,400	0

1/ Excluding non-state aid districts.

Table 6

CAA Suspensions & Restorations Through FY 2023

<u>Fiscal Year</u>	<u>Prior Year Suspension</u>	<u>Restoration</u>	<u>Current Year Suspension</u>
2019	(18,656,000)	5,027,200	(13,628,800)
2020	(13,628,800)	3,407,200	(10,221,600)
2021	(10,221,600)	3,407,200	(6,814,400)
2022	(6,814,400)	3,407,200	(3,407,200)
2023	(3,407,200)	3,407,200	0

The K-12 Education BRB eliminates DAA suspensions for school districts with fewer than 1,100 students for FY 2019. Their suspensions were capped at \$5,000,000 statewide for FY 2012 through FY 2018.

School districts will receive approximately \$177,000,000 of DAA funding in FY 2019, including \$12,400,000 self-funded by non-state aid districts under current estimates. Without the remaining suspension, they instead would receive approximately \$452,000,000 in DAA funding, including approximately \$36,000,000 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 \$363,000,000 of CAA funding in FY 2019. Without the remaining suspension, they instead would receive approximately \$377,000,000. CAA is authorized by A.R.S. § 15-185B4, which establishes CAA per pupil funding amounts that historically have been adjusted for inflation each year in the K-12 Education BRB. The K-12 Education BRB increases the current statutory amounts (if fully funded) by 1.8% for inflation to \$1,807.00 per pupil for Grades K-8 and \$2,106.03 per pupil for Grades 9-12.

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 can fully fund their K-12 formula costs with local property taxes because of their strong local property tax base.

The budget also continues BRB language 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.

Teacher Salary Increases

The budget includes an increase of \$306,017,700 from the General Fund in FY 2019 for teacher salary increases. It will be allocated to schools through an additional \$210.50 base level increase described in the "Background" section below. Monies from the \$210.50 base level increase are intended increase average teacher salaries by 10% for FY 2019.

The budget also appropriates funding in FY 2020 and FY 2021 to provide additional base level increases in those years. That funding is intended to provide a cumulative 20% increase in average teacher salaries by FY 2021. (See Table 7 and "Additional Funding" section below for more information.)

The \$306,017,700 appropriation for FY 2019 includes the amounts shown in Table 7, which are described separately below.

Table 7**Teacher Pay Raise Summary ^{1/}**

Source	Amount
Original 2.12% Increase	\$65,419,100
Additional Funding	176,200,000
"Bridge to Prop 301"	64,100,000
ADC & DJC Increase	<u>298,600</u>
Total – FY 2019 ^{2/}	\$306,017,700
Additional Increase – FY 2020	<u>164,700,000</u>
Total – FY 2020 ^{2/}	\$470,717,700
Additional Increase – FY 2021 ^{2/3/}	<u>174,500,000</u>
Total – FY 2021	\$645,217,700

^{1/} Excludes amounts self-funded by non-state aid school districts, which will add approximately 7% to totals shown, except for funding to ADC & DJC.

^{2/} Excludes funding for teacher pay raises at the Arizona State Schools for the Deaf and the Blind (ASDB), which is allocated through the Special Education Fund, rather than Basic State Aid. That funding is estimated at \$1,287,100 for FY 2019, \$1,930,700 for FY 2020 and \$2,574,200 for FY 2021.

^{3/} Includes \$50,000,000 available from the Classroom Site Fund in FY 2021 due to the retirement of debt service payments on School Facilities Board Proposition 301 bonds in FY 2020.

Original 2.12%

The \$306,017,700 appropriation for teacher salary increases for FY 2019 includes \$65,419,100 from the General Fund for the 2.12% teacher salary increase originally enacted by the FY 2018 budget. That budget appropriated \$34,000,000 to a separate "Additional Teacher Salary Increase" line item for a 1.06% teacher salary increase for FY 2018. It also included language stating that the Legislature and Governor intended to provide funding for an additional 1.06% teacher pay raise in FY 2019 for a total 2-year increase of 2.12%. Based on updated data, the FY 2019 Baseline assumed that the cumulative cost of the original 2.12% teacher pay raise would be \$65,419,100 in FY 2019.

The FY 2019 budget funds the \$65,419,100 through the base level for FY 2019, along with the other teacher pay raise monies shown in *Table 7*. Those monies collectively are funding the additional \$210.50 base level increase for teacher pay raises for FY 2019.

Additional Funding

The \$306,017,700 appropriation for teacher salary increases for FY 2019 also includes an increase of \$176,200,000 from the General Fund in FY 2019 to help fund the \$210.50 base level increase for teacher pay raises for FY 2019.

In addition, Sections 136 and 137 of the General Appropriation Act appropriate \$164,700,000 in FY 2020 and \$289,200,000 in FY 2021 for additional teacher pay raises in those years. The \$289,200,000 amount represents an increase of \$124,500,000 above the FY 2020 amount, not including an additional \$50,000,000 available from the Classroom Site Fund. The total increase for FY 2021 therefore is \$174,500,000 (\$124,500,000 + \$50,000,000). (*See Table 7 and Bridge to Proposition 301 narrative below for more information.*) Those monies are intended to fund a cumulative 20% increase in average teacher salaries by FY 2021.

The base level increases required for FY 2020 and FY 2021 to allocate the amounts appropriated for those years will be calculated during the spring of 2019 and 2020, respectively, based on student counts and other formula funding factors available at that time. They will be calculated using the same methods used to compute the \$210.50 base level increase for teacher pay raises for FY 2019. (*See Background section below for more information.*)

"Bridge to Proposition 301"

The \$306,017,700 appropriation for teacher salary increases for FY 2019 also includes an increase of \$64,100,000 from the General Fund in FY 2019 for "Bridge to Proposition 301." These recurring one-time monies will fund \$64,100,000 of base level increases until FY 2022, when an equivalent amount can be obtained from the Classroom Site Fund pursuant to Laws 2018, Chapter 74.

Chapter 74 renews the current 0.6 cent Proposition 301 sales tax through June 30, 2041 and will redirect to the Classroom Site Fund \$64,100,000 of 0.6 cent sales tax monies starting in FY 2022. The redirected monies historically has been used to pay debt service on School Facilities Board bonds authorized by Proposition 301. Those bonds will be paid off by the end of FY 2020.

Only about \$50,000,000 of the \$64,100,000 will be available to fund teacher pay raises in FY 2021 because Universities and Community Colleges will be entitled to receive a portion of the newly-available \$64,100,000 for that year only, since Chapter 74 will not take effect until FY 2022. In addition, a portion of the \$64,100,000 will need to fund pay raises for non-state aid districts in FY 2021 only. The latter will occur because the pay raise portion of the \$64,100,000 for FY 2021 will come from the Classroom Site Fund, rather than the Basic State Aid. Only the latter formula generates local savings from non-state aid districts.

ADC and DJC Increase

The \$306,017,700 appropriation for teacher salary increases for FY 2019 includes an increase of \$298,600 from the General Fund in FY 2019 for teacher salary increases at the Department of Corrections (ADC) and Department of Juvenile Corrections (DJC). ADC and DJC receive Basic State Aid funding under formulas prescribed by A.R.S. § 15-1372 (DOC) and A.R.S. § 15-1371 (DJC). The \$210.50 base level increase for teacher salary increases for FY 2019 will increase their formula funding collectively by an estimated \$298,600 for FY 2019.

ASDB Increase

The budget also provides an increase of \$1,287,100 from the General Fund for teacher pay raises at the Arizona State Schools for the Deaf and the Blind (ASDB) for FY 2019. That funding is appropriated to the Special Education Fund rather than Basic State Aid, however, because ASDB's formula costs are funded through the Special Education Fund rather than Basic State Aid. The \$1,287,100 amount therefore does not appear in *Table 7*. (See narrative for Special Education Fund for more information).

On a related note, the K-12 Education BRB requires each school district and charter school to post in a prominent way on the homepage of its website and on its budget forms the amount of its average teacher salary in the current and prior fiscal year and include the increase in dollar and percentage terms. It also requires the department to submit a report on the information from districts and charter schools statewide to JLBC and OSPB by November 30.

In addition, the K-12 Education BRB requires each school district to display on the homepage of its website in a prominent way its individual profile published in the Auditor General's annual district spending report.

Background - The Governor's Office of Strategic Planning and Budgeting (OSPB) estimated that the 20% teacher pay raise would require \$645 million in total state funding upon full phase in by FY 2021. This estimate was based on a reported cost of \$32.5 million for the 1.06% teacher pay raise from FY 2018 according to ADE. OSPB translated that cost into what it would have been for a 1.0% rather than 1.06% pay raise ($\$32.5 \text{ million} \div 1.06 = \30.7 million) and then increased the latter amount by 3.1% annually for more teachers and inflation. This resulted in an average cost of \$32.25 million per 1% raise by FY 2021, or \$645 million for a 20% raise ($\$32.25 \text{ million} \times 20 = \645 million).

As a crosscheck to OSPB's calculations, JLBC Staff computed an alternative estimate based on the following factors:

- 1) The average teacher salary reported by the Auditor General for school districts for FY 2017 (\$48,372).
- 2) The cost to increase the Auditor General average by 20% (\$9,674).
- 3) The estimated number of teachers in the state in FY 2021 (62,240 based on the 59,576 "Year End Teacher FTEs" reported for FY 2017 by ADE, but increased by approximately 1.1% annually for more teachers).
- 4) The additional percentage increase needed to cover higher Employee Related Expenditure (ERE) costs for school districts and charter schools under the proposal (18.4% based on costs observed for the 1.06% pay raise in FY 2018).
- 5) The percent of pay raise costs that would be paid locally by "non-state aid" districts (decreases state cost by approximately 7%).
- 6) An adjustment to reflect lower average teacher salaries for charter schools that are not reflected in the Auditor General's \$48,372 figure for school districts (decreases state cost by approximately 2.8%). (The Auditor General does not publish a corresponding figure for districts and charters combined.)

Under this approach, the JLBC Staff estimated a state cost of \$648 million for the proposed teacher pay raises by FY 2021, which essentially matched OSPB's \$645 million cost estimate.

Having determined the statewide dollar amount needed for the proposed teacher pay raise, JLBC Staff then used computer modeling to translate the FY 2019 portion of that total (\$306,017,700) into a dollar amount per student, since Arizona's funding formula for public schools allocates funding on a per pupil basis.

The JLBC Staff modeling was based on student counts and other formula funding factors currently reported by ADE. Based upon the modeling, the JLBC Staff determined that a base level increase of \$210.50 would be needed to increase K-12 formula allocations by \$306,017,700 statewide for FY 2019, including funding for the 1.06% teacher salary increase provided for FY 2018.

The \$210.50 figure represents a 5.72% base level increase above the FY 2018 base level of \$3,683.27 ($\$210.50 \div 3,683.27 = 5.72\%$). It is in addition to the 1.8% (\$66.30) base level increase provided for inflation for FY 2019 (see narrative for 1.8% Inflation Adjustment policy issue above). Both OSPB and JLBC Staff confirmed the

reasonableness of the \$210.50 computer-generated amount using manual calculations.

A 5.72% base level increase is sufficient to fund a 10% average teacher pay raise for FY 2019 (including the 1.06% provided for FY 2018) because only about 48% of base level monies fund teacher salaries and ERE costs. (The Auditor General reports that school districts spent 53.8% of their total operational budgets on "Instruction" for FY 2017, but this figure includes not only teacher salaries and benefits, but also monies spent on classroom supplies, instructional aids, field trips and athletics.) The other 52% is spent on items other than teacher salaries. As a result, a base level increase of only 48% of 10% (4.8%) is needed to fund a 10% increase in base level funding for teacher salaries and benefits.

The FY 2019 state budget provides a 5.72% rather than 4.8% base level increase for teacher salaries because the state also is providing funding to increase by 20% the portion of teacher salaries not funded by the state through the base level. The latter includes teacher salaries funded with Federal Funds, budget overrides, desegregation monies, and the Classroom Site Fund. The Auditor General's reported average teacher salary of \$48,372 for FY 2017, which the JLBC Staff cost calculations were based on, included funding from all sources.

Large JTEDs

The budget includes an increase of \$1,800,000 from the General Fund in FY 2019 to fund state aid for JTEDs with more than 2,000 ADM at 100% apart from Additional Assistance suspensions described above. The budgets for FY 2015 through FY 2018 funded state aid for large JTEDs at 95.5%.

Empowerment Scholarship Accounts

The budget includes an increase of \$262,400 from the General Fund in FY 2019 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This assumes an increase of 1,185 ESAs for FY 2019, which was the increase reported for FY 2017. It also assumes that 58% of new ESAs under trend line growth would go to students with disabilities based on FY 2017 data.

The \$262,400 estimate additionally assumes different per pupil costs or savings for different types of ESA students based on formula modeling. The state fiscal impact of a new ESA varies depending on a student's grade level, whether they have special needs and whether they would be in a school district, charter school or private school apart from the program.

The budget assumes no incremental ESA growth in FY 2019 from the ESA expansion bill from the 2017 Legislative Session (Laws 2017, Chapter 139), since it is subject to a voter referendum pursuant to A.R.S. § 19-101. The referendum vote will occur in November 2018. (See the FY 2018 Appropriations Report for more information on Chapter 139.)

Overall Estimated ESA Costs for FY 2019

The overall cost of ESAs is projected to increase by \$15,700,500 in FY 2019, growing from an estimated \$60,218,100 in FY 2018 to \$75,918,600 in FY 2019 (see Table 8). Except for the assumed \$262,400 increase for 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	3,360	\$44,517,700
FY 2018 (est)	4,545	\$60,218,100
FY 2019 (est)	5,730	\$75,918,600

^{1/} Figures shown for FY 2012 through FY 2017 are from ADE as of August 2017. Estimates for FY 2018 and FY 2019 are from the JLBC Staff. "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 estimated \$75,918,600 cost for ESAs for FY 2019 represents the projected 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.

(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 2017 the fund had a carry-forward balance of \$1,885,100.

Additional School Days

The budget includes no change from Proposition 301 Expenditure Authority in FY 2019 for Additional School Days pursuant to A.R.S. § 42-5029E5. This provides the department with \$86,280,500 in Proposition 301 funding for Additional School Days for FY 2019.

Proposition 301 monies for Additional School Days were included in the department's non-appropriated funds totals in prior years. The budget, however, displays them

and other non-appropriated monies that the department receives from Proposition 301 and Indian gaming as "Expenditure Authority" funds for greater transparency.

This change does not affect the department's access to funding from Proposition 301 or Indian gaming, as it may spend whatever funding is available to it from them *(see New Footnotes section below)*.

(See Summary narrative for more information on Expenditure Authority.)

State Aid Supplement

The budget includes \$50,000,000 from the General Fund in FY 2019 for State Aid Supplement funding. This amount is unchanged from FY 2018.

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 advances 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. They therefore do not appear in the FY 2019 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 no funding from the General Fund in FY 2019 for the Additional Teacher Salary Increase line item. FY 2019 adjustments are as follows:

Transfer Funding to Basic State Aid

The budget includes a decrease of \$(34,000,000) from the General Fund in FY 2019 to transfer existing funding to the Basic State Aid program, where it will help fund the \$210.50 base level increase for teacher salaries for FY 2019. *(See Teacher Salary Increases narrative above under Basic State Aid for more information.)*

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) required a school district or charter school to use its allocation of monies from this line item to give its teachers additional salary increases for FY 2018. *(See the FY 2018 Appropriations Report for more information.)*

Results-Based Funding

The budget includes \$38,600,000 from the General Fund in FY 2019 for Results-Based Funding. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for a prior year base adjustment. The FY 2018 budget appropriated \$37,600,000 for Results-Based Funding (RBF) for FY 2018, but the actual cost is expected to be at least \$38,600,000 for FY 2018. The base budget for the program therefore is being increased by \$1,000,000 for FY 2019 to more fully fund expected program costs for FY 2019.

In addition, Section 106 of the General Appropriation Act allows the Superintendent of Public Instruction to transfer up to \$1,600,000 of the state General Fund appropriation for Basic State Aid for FY 2018 to this program, if needed, without JLBC review, to address an anticipated funding shortfall for the program for FY 2018. A.R.S. § 15-901.03 otherwise would require JLBC review of the transfer.

Section 26 of the K-12 Education BRB notwithstanding A.R.S. § 15-249.08B2 for FY 2019 to require the department to distribute program monies for FY 2019 based on AzMERIT scores from spring 2017 testing. Otherwise they would be distributed based on A – F letter grade ratings from FY 2018. *(See the FY 2019 Baseline for more information.)*

Background – The program provides additional funding to individual schools under a formula prescribed in A.R.S. § 15-249.08. That law also establishes the Results-Based Funding Fund, which consists of legislative appropriations and is administered by the department. Monies in the fund are continuously appropriated. *(See the FY 2018 Appropriations Report for additional information on program requirements.)*

Rural Assistance

The budget includes no funding from the Budget Stabilization Fund in FY 2019 for Rural Assistance. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The budget includes a decrease of \$(2,600,000) from the Budget Stabilization Fund in FY 2019 to eliminate one-time funding for Rural Assistance. The one-time amount was appropriated by the FY 2018 General Appropriation Act from monies earned from the investment of monies in the Budget Stabilization Fund established by A.R.S. § 35-144. *(See the FY 2018 Appropriations Report for more information.)*

Special Education Fund

The budget includes \$25,529,200 and 1 FTE Position from the General Fund in FY 2019 for the Special Education Fund Special Line Item. FY 2019 adjustments are as follows:

One-Time Reduction

The budget includes a one-time decrease of \$(8,000,000) from the General Fund in FY 2019 to fund a portion of special education voucher costs for FY 2019 with surplus carry-forward monies in the Special Education Fund (SEF) established by A.R.S. § 15-1202. The SEF had a carry-forward balance of \$8,242,200 at the end of FY 2017. The budget reduces the state General Fund appropriation into the SEF by \$(8,000,000) for FY 2019 on a one-time basis to spend down these carry-forward monies.

ASDB Teacher Pay Raises

The budget includes an increase of \$1,287,100 from the General Fund for teacher pay raises at the Arizona State Schools for the Deaf and the Blind (ASDB) for FY 2019. *(See Teacher Pay Raises narrative above under Basic State Aid for more information.)*

Background - 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 2019 for Other State Aid to Districts. This amount is unchanged from FY 2018.

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.

Classroom Site Fund

The budget includes \$574,995,000 in FY 2019 for the Classroom Site Fund (CSF). This amount consists of:

Proposition 301 Expenditure Authority	435,277,400
Proposition 301/CSF - Land Trust Expenditure Authority	103,425,500
Proposition 301/CSF - Carry-Forward Balance Expenditure Authority	36,292,100

FY 2019 adjustments are as follows:

Caseload and Revenue Changes

The budget includes an increase of \$26,428,000 from Proposition 301 Expenditure Authority for estimated caseload and revenue changes for the CSF for FY 2019. This and other CSF expenditure authority changes for FY 2019 assume a CSF per pupil amount of \$423 for FY 2019, as determined by the JLBC Staff pursuant A.R.S. § 15-977G1. That law requires the JLBC Staff to determine the per pupil amount for each fiscal year by March 30 of the prior fiscal year.

Caseload and Revenue Changes

The budget includes an increase of \$20,332,100 from Proposition 301/CSF – Land Trust Expenditure Authority for estimated caseload and revenue changes for the CSF for FY 2019.

Carry-Forward Changes

The budget includes a decrease of \$(2,584,000) from Proposition 301/CSF – Carry-Forward Balance Expenditure Authority for estimated changes in CSF carry-forward balances for FY 2019.

Background - The CSF is established by A.R.S. § 15-977 and provides additional funding to public schools from Proposition 301 and K-12 endowment earnings. CSF monies were included in the department’s non-appropriated funds totals in prior years. The budget, however, displays them and other non-appropriated monies that the department receives from Proposition

301 and Indian gaming as “Expenditure Authority” funds for greater transparency.

This change does not affect the department’s access to funding from Proposition 301 or Indian gaming, as a General Appropriation Act footnote allows the department to spend whatever funding is available to it from them (*see footnote #16 in agency summary table above*).

(See Summary narrative for more information on Expenditure Authority.)

Instructional Improvement Fund

The budget includes \$45,000,000 from the Tribal Gaming Expenditure Authority in FY 2019 for the Instructional Improvement Fund. This amount is unchanged from FY 2018.

Tribal Gaming monies were included in the department’s non-appropriated funds totals in prior years. The budget, however, displays them and other non-appropriated monies that the department receives from Proposition 301 as “Expenditure Authority” funds for greater transparency.

This change does not affect the department’s access to funding from Proposition 301 or Indian gaming, as a General Appropriation Act footnote allows the department to spend whatever funding is available to it from them (*see footnote #17 in agency summary table above*).

(See Summary narrative for more information on Expenditure Authority.)

The Instructional Improvement Fund (IIF) is established by A.R.S. § 15-979 and receives shared revenues from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. IIF monies are distributed to school districts, charter schools and the Arizona State Schools for the Deaf and the Blind based on their student counts.

Property Tax Relief

Additional State Aid

The budget includes \$413,665,500 from the General Fund in FY 2019 for Additional State Aid. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The budget includes an increase of \$9,533,200 from the General Fund in FY 2019 to reflect higher-than-budgeted costs for Additional State Aid for FY 2018. The FY 2018 budget assumed that Additional State Aid would cost \$410,546,000 for FY 2018 for the Homeowner’s Rebate and 1% Cap combined. The actual combined cost, however, is \$420,079,200 (\$9,533,200 more), as reported by the Arizona Department of Revenue (DOR) in October 2017 pursuant to A.R.S. § 15-972H. Starting point costs for Additional State Aid for FY 2019 therefore will be \$9,533,200 more than the FY 2018 appropriation.

New Homes

The budget includes an increase of \$12,539,000 from the General Fund in FY 2019 for increased Additional State Aid costs associated with new home construction. The \$12,539,000 estimate assumes that Class 3 properties (owner occupied homes) will account for 50% of statewide property tax growth from new construction in FY 2019 and that the Homeowner’s Rebate percentage will remain at 47.19% for FY 2019. The latter would not change for FY 2019 under current law.

1% Cap Funding for Desegregation Programs

The budget includes a decrease of \$(18,952,700) from the General Fund in FY 2019 for lower assumed 1% Cap costs for desegregation programs. The FY 2019 Revenue BRB (Laws 2018, Chapter 283) requires desegregation programs to be funded with secondary rather than primary property taxes starting in FY 2019 (retroactive to July 1, 2018). The budget assumes a savings of \$(18,952,700) for this issue, as the 1% Cap applies only to primary property taxes and currently funds an estimated \$18,952,700 of primary property taxes for desegregation programs.

Chapter 283 also requires the county treasurer to determine the descriptor for the desegregation levy as a separate item on tax bills.

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 (the “1% Cap”).

The Homeowner’s Rebate is authorized by A.R.S. § 15-972 and pays 47.19% of each homeowner’s QTR taxes, up to a maximum of \$600 per parcel. The “1% cap” 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.

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 to keep their combined primary rate below \$10 per \$100 of NAV. Related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

The budgets for FY 2016 through FY 2018 appropriated separate amounts for the Homeowner’s Rebate and 1% Cap due to 1% Cap policy changes that the Legislature attempted to implement in FY 2016. Those policy changes, however, were ruled not permissible by the courts in July 2016, so were not implemented. (See the FY 2018 budget for more information.)

The FY 2019 budget combines funding for the Homeowner’s Rebate and 1% Cap back into a single line item given the 2016 court ruling and because DOR’s annual Additional State Aid reports pursuant to A.R.S. § 15-972H report only combined Homeowner’s Rebate and 1% Cap costs.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,422,500 and 28.4 FTE Positions in FY 2019 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,422,500
Proposition 301 Fund (Appropriated)	7,000,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the General Fund in FY 2019 for statewide adjustments.

Background – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. ADE indicates that the test will cost approximately \$18,000,000 in FY 2018 and \$19,700,000 in FY 2019 (see Table 9).

The Achievement Testing program, however, includes components other than AzMERIT testing. It also includes

Table 9

**Estimated Achievement Testing Costs and Available Funding
(ADE estimates) (\$ in Millions)**

	FY 2018	FY 2019
Estimated Costs 1/		
AzMERIT	\$18.0	\$19.7
AIMS Science Testing	1.2	1.6
Alternative Special Needs Exam (MSAA)	0.2	0.2
AZELLA 2/	7.1	7.5
Information Technology Support	1.3	1.3
Staff and Administration	1.9	1.9
Menu of Assessments	0.0	3.0
Total	\$29.7	\$35.2
Estimated Available Funding 3/		
General Fund	\$14.3	\$14.3
Proposition 301 - School Accountability 4/	15.7	13.5
Federal Funds	4.7	3.4
Total	\$34.7	\$31.2

- 1/ ADE estimates for FY 2019 are preliminary.
- 2/ Arizona English Language Learner Assessment funded through the English Learner Administration line item.
- 3/ FY 2019 estimates include \$5.0 million of assumed carry-forward monies from FY 2018. Surplus Proposition 301 monies can be carried forward to subsequent years.
- 4/ Includes carry-forward monies.

AIMS Science Tests, AZELLA testing for English Learners, alternative exams for special needs students, information technology support and program administration. ADE estimates the cost of these other functions and AzMERIT combined at \$29,700,000 in FY 2018 and \$35,200,000 for FY 2019 (see Table 9).

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. The budget adds a new footnote indicating that any monies available to the Department of Education for accountability pursuant to A.R.S. § 42-5029E7 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E7 (see footnote #19 in agency summary table). (See Summary narrative for more information on Expenditure Authority.)

This line item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the “up to \$7 million” allowable appropriation for School Accountability in A.R.S. § 42-5029E7.

(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 \$4,634,400 and 4.3 FTE Positions in FY 2019 for Adult Education. These amounts consist of:

General Fund	4,502,100
Department of Education Professional Development Revolving Fund	132,300

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(2,100) from the General Fund in FY 2019 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 2018, 23 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$12,895,900 in federal funding in FY 2018. 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 2019 for an Alternative Teacher Development Program. This amount is unchanged from FY 2018.

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 2019 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2018.

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 \$4,546,400 to public schools from the fund in FY 2017.

Broadband Expansion

The budget includes no funding from the Automation Projects Fund in FY 2019 for Broadband Expansion. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes a decrease of \$(3,000,000) from the Automation Projects Fund in FY 2019 to remove one-time funding for broadband expansion. The K-12 Education BRB, however, requires the Corporation Commission to make all monies collected for K-12 broadband expansion that remain after the 2018 E-Rate cycle available in subsequent years to eligible applicants.

Section 120 of the FY 2018 General Appropriation Act appropriated \$3,000,000 from the Automation Projects Fund to a new Broadband Expansion Fund (BEF) (A.R.S. § 15-249.07A) established by Section 3 of the FY 2018 K-12 Education BRB. (See the FY 2018 Appropriations Report for more information.)

Code Writers Initiative Pilot Program

Laws 2018, Chapter 290 appropriates \$500,000 from the Web Portal Fund in FY 2019 for a Code Writers Initiative Pilot Program. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$500,000 from the State Web Portal Fund in FY 2019 for a Code Writers Initiative Pilot Program. These monies are appropriated by Laws 2018, Chapter 290.

Chapter 290 requires the department to allocate program funding on a competitive grant basis with input from the American Indian Advisory Council to participants who will leverage state monies by also securing non-state funding for the program. Program monies are to be used to introduce computer code writing curriculum for Native American students in grades 9–12.

The program also received a one-time appropriation of \$500,000 for FY 2017.

College Credit by Examination Incentive Program

The budget includes \$5,000,000 from the General Fund in FY 2019 for the College Credit by Examination Incentive Program. This amount is unchanged from FY 2018.

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.

The K-12 Education BRB amends A.R.S. § 15-249.06 to add social studies to the exam subject areas that can generate bonuses for school districts and charter schools under the program.

Computer Science Pilot Program

The budget includes \$1,000,000 from the General Fund in FY 2019 for a Computer Science Pilot Program. FY 2019 adjustments are as follows:

New Program

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for a new Computer Science Pilot Program to fund quality training for prospective computer science teachers.

The K-12 Education BRB establishes the program and the Computer Science Professional Development Program Fund (CSPDPF) in statute (A.R.S. § 15-249.12). That law requires the department to distribute program grants on a first-come, first-served basis to schools that currently do not provide high school computer science instruction. It also requires the second 50% of state General Fund funding for the program each year to be matched with private monies or in-kind donations and establishes reporting requirements for the program.

Early Literacy

The budget includes \$12,000,000 from the General Fund in FY 2019 for Early Literacy. FY 2019 adjustments are as follows:

Program Increase

The budget includes an increase of \$4,000,000 from the General Fund in FY 2019 for the Early Literacy program established by A.R.S. § 15-249.09. This will increase program funding to \$12,000,000 for FY 2019 versus \$8,000,000 for its first year (FY 2018).

FY 2019 funding for the program was appropriated by Section 136 of the FY 2018 General Appropriation Act, so

does not appear in the FY 2019 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. (See the FY 2018 Appropriations Report for more information.)

Education Learning and Accountability System

The budget includes \$5,300,000 and 24 FTE Positions from the General Fund in FY 2019 for the Education Learning and Accountability System (ELAS) line item. FY 2019 adjustments are as follows:

Ongoing Funding

The budget includes an increase of \$5,300,000 and 24 FTE Positions from the General Fund in FY 2019 for ongoing ELAS funding.

This is the first year since FY 2013 that ELAS funding appears in the ADE budget. From FY 2014 - FY 2018, ELAS funding was appropriated to the Arizona Department of Administration (ADOA) Automation Projects Fund (APF) rather than ADE. The FY 2019 budget includes no funding from APF for implementing, upgrading and maintaining ELAS. This eliminates \$(7,300,000) in one-time funding appropriated for ELAS by Section 115 of the FY 2018 General Appropriation Act.

The net impact is a \$(2,000,000) reduction in funding for ELAS in FY 2019 compared to FY 2018. However, FY 2019 marks the first year that ELAS funding is designated as ongoing, rather than one-time, in the budget.

Laws 2011, Chapter 29 authorized development of ELAS, 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).

ADE's expenditure plan for the \$7,300,000 it received for ELAS via the APF in FY 2018 included \$5,300,000 for maintenance and operation of the system and \$2,000,000 for further development. That expenditure plan was reviewed by the JLBC at its June 2017 meeting.

ADE estimates that an additional \$15,500,000 will be needed from the General Fund to complete ELAS development over the next 3 fiscal years. This amount would be in addition to the current \$5,300,000 of ongoing funding.

ELAS has received approximately \$66,400,000 in total funding from all sources combined since its inception, including the \$5,300,000 appropriated from the General Fund for FY 2019. The General Fund has provided \$51,100,000 of the total, with the remainder coming from temporary fees from university and community college students (approximately \$8,000,000 cumulatively) and Federal Funds (approximately \$7,300,000 cumulatively) (see Table 10).

Table 10

ELAS Funding by Fiscal Year
(\$ in Millions)

Fiscal Year	General Fund ^{1/}	Higher Ed Fees ^{2/}	Federal Grants ^{3/}	Total
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
2019	5.3	0.0	0.0	5.3
Total	51.1	8.0	7.3	66.4

- 1/ General Fund appropriations for ELAS were made to the Department of Administration Automation Projects Fund in FY 2014 – FY 2018.
- 2/ 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.
- 3/ Included \$5.0 million from a statewide longitudinal data system (SLDS) grant and \$2.3 million from a "Race to the Top" grant.

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.)
- 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. (Implemented in FY 2017; full functionality not yet completed.)
- 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. (Discontinued for FY 2019)
- 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.

Pursuant to A.R.S. § 18-104, ADE contracted with a third-party vendor to provide additional oversight for the project from FY 2013 - FY 2018. While ADE has awarded a new 5-year contract, it will not be executing the contract in FY 2019, stating that third-party oversight was a condition for approval of its development activities. ADE states that the contract will remain in place should additional development funding be appropriated in the future.

English Learner Administration

The budget includes \$6,509,500 and 14.5 FTE Positions from the General Fund in FY 2019 for English Learner Administration. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,500) from the General Fund in FY 2019 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 127,000 students were expected to take the AZELLA in FY 2018, including 47,000 for initial testing and 80,000 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 from the General Fund in FY 2019 for Geographic Literacy. This amount is unchanged from FY 2018.

The program funds a statewide geographic alliance for the purpose of strengthening geographic literacy in this state.

Gifted Education

The budget includes \$1,000,000 in one-time funding from the General Fund in FY 2019 for Gifted Education. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for Gifted Education. The program provides additional funding for gifted programs pursuant to A.R.S. § 15-779.03.

Jobs for Arizona Graduates

The budget includes \$100,000 from the General Fund in FY 2019 for a Jobs for Arizona Graduates program. This amount is unchanged from FY 2018.

The program funds a Jobs for Arizona Graduates program.

JTED Completion Grants

The budget includes \$1,000,000 from the General Fund in FY 2019 for JTED Completion Grants. This amount is unchanged from FY 2018.

A footnote in the General Appropriation Act stipulates that program monies are intended to help fund program completion for students who complete at least 50% of a JTED program before graduating from high school and who successfully complete the JTED program after graduating from high school. It further requires the department to award grant funding only after an eligible

student has successfully completed a JTED program. It also stipulates that if the appropriated amount is insufficient to fund all grant requests from JTEDs, the department shall reduce grant amounts on a proportional basis to cap total statewide allocations at \$1,000,000. It further stipulates that program funding is non-lapsing. The budget continues the footnote for FY 2019, but makes FY 2019 funding lapsing only through FY 2020.

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.

JTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2019 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2018.

The line item provides additional funding to small JTEDs for soft capital and equipment. 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. The budget continues the footnote for FY 2019.

School Safety Program

The budget includes \$11,946,900 and 5.1 FTE Positions in FY 2019 for the School Safety program. These amounts consist of:

General Fund	4,146,900
Proposition 301 Expenditure Authority	7,800,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(700) from the General Fund in FY 2019 for statewide adjustments.

Proposition 301 Expenditure Authority monies for School Safety were included in the department’s non-appropriated funds totals in prior years. The budget, however, displays them and other non-appropriated monies that the department receives from Proposition 301 and Indian gaming as “Expenditure Authority” funds for greater transparency.

This change does not affect the department’s access to funding from Proposition 301 or Indian gaming, as it may spend whatever funding is available to it from them (*see*

footnote #26 in agency summary table). (See Summary narrative for more information on Expenditure Authority.)

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.*)

All available state General Fund and Proposition 301 funding for the program is allocated annually by the Department of Education subject to review and approval by the State Board of Education pursuant to A.R.S. § 15-154. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2018 is the first year of the current cycle.

Program funding is used primarily to pay officer salaries and benefits. Law enforcement agencies typically cover associated costs for police cars, uniforms and equipment. School districts and charter schools typically pay costs for related overhead, supervision and supplies.

State Block Grant for Vocational Education

The budget includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2019 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2018.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. ADE also currently receives approximately \$26,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006, most of which is passed onto local CTE programs. Federal CTE 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 \$2,387,000 and 21.6 FTE Positions in FY 2019 for Teacher Certification. These amounts consist of:

General Fund	178,100
Teacher Certification Fund	2,208,900

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(17,300) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	1,900
Teacher Certification Fund	(19,200)

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 no funding in FY 2019 for a Teacher Professional Development Pilot Program. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The budget includes a decrease of \$(300,000) from the General Fund in FY 2019 to eliminate one-time funding for the program.

Laws 2017, Chapter 284 provided a one-time increase of \$300,000 from the General Fund in FY 2018 for a Teacher Professional Development Pilot Program. Chapter 284 required the program to issue scholarships or grants, or both, on a competitive basis to 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.

(See the FY 2018 Appropriations Report for more information.)

Tribal College Dual Enrollment Program Fund

The budget includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2019 for the Tribal College Dual Enrollment Program Fund program. This amount is unchanged from FY 2018.

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 2018 Supplemental
- Additional Legislation

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers

Basic State Aid

- Basic State Aid Formula Description

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 \$386,246,600 in FY 2020 above FY 2019 and \$384,474,400 in FY 2021 above FY 2020. These estimates are based on:

- 1.3% ADM growth for both fiscal years consisting of approximately 900 new ADM for districts and 13,500 new ADM for charters annually.
- GDP inflators of 2% for both FY 2020 and FY 2021 (currently projected at 2.34% for FY 2020 and 2.44% for FY 2021; statute funds the lesser of 2% or the actual rate).
- A \$25 million increase in State Aid Supplement funding in FY 2021, as required by Proposition 123.
- New construction NAV growth of 2.41% for FY 2020 and 2.37% for FY 2021.
- A \$2.7 million increase in state aid costs due to property tax statutory changes in FY 2021.
- General Fund decreases of \$(12.3) million in FY 2020 and \$(8.9) million in FY 2021 for higher endowment earnings.
- Approximately \$300,000 per year for Empowerment Scholarships Account caseload growth.
- An \$8 million increase in FY 2020 due to surplus Special Education Fund monies being available for FY 2019 only.
- Increases of \$164.7 million in FY 2020 and \$124.5 million in FY 2021 (plus an additional \$50 million from

the Classroom Site Fund) for additional teacher pay raises.

- Increases of \$67.8 million in both FY 2020 and FY 2021 for Additional Assistance restorations.

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental of \$300,000 from the General Fund for Basic State Aid. (Please see Basic State Aid for further details.)

Additional Legislation

Civics Education

Laws 2018, Chapter 289 amends A.R.S. § 15-701.01 to require the State Board of Education to include American civics education in academic standards prescribed for social studies. It also requires the department to develop a 5-year pilot program to begin in FY 2020 for American civics education in grades 9-12. Chapter 289 appropriates \$500,000 for the program in FY 2020.

Noncustodial Federal Monies

Laws 2018, Chapter 250 requires the department to submit to the Joint Legislative Budget Committee for review each year by December 1 a report detailing all federal monies it receives and how they were allocated. The report shall differentiate between noncustodial federal monies and all other federal monies.

Chapter 250 defines "noncustodial federal monies" as meeting at least one of the following criteria:

- are designated by the federal government as block grant monies
- are designated by the federal government as general revenue sharing monies
- provide this state with broad authority to make spending decisions regarding the development, implementation or operation of a program or service
- are considered essential to meet total spending obligations of a federally required or matched program or service authorized by the Legislature in which the federal government requires at least 1% of the program or service funding to come from this state.

Chapter 250 excludes from "noncustodial federal monies" any federal monies awarded directly to school districts or charter schools.

School Finance Provisions

In addition to other provisions described above, the K-12 BRB makes the following changes:

- As permanent law, gives the State Board for Charter Schools authority to close charter schools based on failure to meet financial performance expectations.
- As permanent law, specifies a definition of "rural" for purposes of aligning eligibility for federal K-12 grants.
- As session law, allows Cave Creek Unified to increase its General Budget Limit by \$1.5 million in FY 2019.

Endowment Earnings

In FY 2017, endowment earnings from state trust lands funded approximately \$350.5 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 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. The rest are 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 2017, public schools received \$350.5 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$80.9 million from the Land Department and \$269.6 million from the State Treasurer (see Table 11).

Source	2015	2017 ^{1/}	2018 est	2019 est ^{2/}
Land Department	53.2	80.9	55.0	55.0
Treasurer	76.0	269.6	294.8	321.3
Total	129.2	350.5	349.8	376.3

^{1/} Land Department FY 2017 revenue 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 2019.

Table 11 shows that K-12 endowment earnings are estimated to equal \$349.8 million in FY 2018 and \$376.3 million in FY 2019.

Of the \$350.5 million in K-12 expendable earnings generated for FY 2017, \$219.3 million was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$24.9 million to fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 (see Table 12). The remaining \$106.3 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.)

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%.

Source	2015	2017	2018 ^{1/}	2019 ^{1/}
Basic State Aid	47.3	219.3	235.3	277.2
SFB Debt Service	25.0	24.9	24.9	0 ^{3/}
Classroom Site Fund ^{2/}	56.9	106.3	89.6	99.1
Total	129.2	350.5	349.8	376.3

^{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.
^{3/} \$24.9 million annual SFB debt service payments ended after FY 2018.

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 can generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require "Basic State Aid" monies 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 can 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 2019 equal \$1,807.00 per pupil for Grades K-8 and \$2,106.03 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.

Proposition 301

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on most

purchases from 5% to 5.6% through FY 2021 to generate more funding for public education. It also amended A.R.S. § 42-5029 to prescribe how the new sales tax revenues would be allocated (*see Table 13*).

Starting in FY 2022, Laws 2018, Chapter 74 extends the additional 0.6% sales tax through June 30, 2041 and redirects to the Classroom Site Fund \$64.1 million of 0.6% sales tax monies previously needed for debt service on School Facilities Board bonds authorized by Proposition 301. All other distributions remain unchanged.

As shown in *Table 13*, Proposition 301 revenues are earmarked for the following items through FY 2021:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction, which will be paid off by the end of FY 2020. (Chapter 74 redirects these monies to the Classroom Site Fund starting in FY 2022. For FY 2021, 12% will go to universities, 3% to community colleges, with equivalent per pupil distributions going to tribal community colleges, and the remainder will go to the Classroom Site Fund.)
- 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 \$384.3 million (57.6%) of the \$667.5 million collected for FY 2017 (*see Table 13*).

Classroom Site Fund

Proposition 301 also amended A.R.S. § 37-521B4 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. Total reported expenditures from the CSF for FY 2017 were \$480.8 million (*see Table 13*).

Proposition 123 from the October 2015 Special Session further amended A.R.S. § 37-521B4 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. The distributions in A.R.S. § 37-521B4 did not expire after FY 2021, so were unaffected by Laws 2018, Chapter 74.

The \$384.3 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2017 does not include \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in Table 13. Those 2 amounts combined equaled \$487.1 million for FY 2017.

ADE distributed \$332 per pupil from the Classroom Site Fund in FY 2017. 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 \$386 per pupil for FY 2018 and \$423 per pupil for FY 2019 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

PROPOSITION 301 SALES TAX REVENUES		Proposition 301 Monies (FY 2017 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	72.4	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	18.1	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	\$180.4	
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	384.3	Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	\$487.1	
Total - Prop 301 Sales Tax	\$667.5	
CLASSROOM SITE FUND EXPENDITURES (ALL SOURCES)		
Prop 301 Sales Tax (from above)	384.3	
Prop 301/CSF - Land Trust	96.5	
Prop 301/CSF - Carry-Forward	0.0	
Total – Classroom Site Fund	\$480.8 ^{1/}	

^{1/} Total disbursements reported for FY 2017 in ADE’s FY 2019 budget request from August 2017. Does not match estimated amounts in JLBC Staff Classroom Site Fund (CSF) memo dated 3/29/2017, as the latter were estimates based on data available at the time rather than year-end actuals.

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 2018, 94 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 2 had “Special Program” overrides pursuant to A.R.S. § 15-482, and 25 had District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2018 included \$490.7 million for M&O overrides, \$1.3 million for Special Program overrides and \$83.4 million for District Additional Assistance overrides. Grand total budgeted override funding for FY 2018 therefore equaled \$575.4 million, which was \$33.5 million above the \$541.9 million amount budgeted for all overrides collectively in FY 2017 (see Table 14). (See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.)

<u>Type of Override</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>Change</u>
M&O	466.0	490.7	24.7
Special Program	0.9	1.3	0.4
Additional Assistance	75.0	83.4	8.4
Total	541.9	575.4	33.5

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 14 are from the related ADE reports for FY 2017 and FY 2018.

Department of Emergency and Military Affairs

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
PROGRAM BUDGET			
Administration	1,864,000	1,920,500	1,784,200
Emergency Management	7,692,600	7,716,400	7,735,800
Military Affairs	1,812,500	3,039,800	3,039,800
AGENCY TOTAL	11,369,100	12,676,700	12,559,800
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.6	69.6	69.6 ^{1/2/}
Personal Services	1,711,000	2,108,200	2,108,200
Employee Related Expenditures	587,000	728,900	755,000
Professional and Outside Services	169,800	117,600	117,600
Travel - In State	56,600	56,700	56,700
Travel - Out of State	12,300	10,000	10,000
Other Operating Expenditures	1,769,200	2,579,800	717,400
Equipment	38,400	0	0
OPERATING SUBTOTAL	4,344,300	5,601,200	3,764,900
SPECIAL LINE ITEMS			
Emergency Management Matching Funds	1,540,900	1,547,100	1,543,300
Governor's Emergency Fund	4,000,000	4,000,000	4,000,000 ^{3/}
Nuclear Emergency Management Program	1,424,300	1,438,400	1,461,600 ^{4/5/}
Military Airport Planning	59,600	90,000	90,000 ^{6/}
National Guard Matching Funds	0	0	1,700,000 ^{7/}
AGENCY TOTAL	11,369,100	12,676,700	12,559,800 ^{8/}
FUND SOURCES			
General Fund	11,369,100	11,238,300	11,098,200
<u>Other Appropriated Funds</u>			
Nuclear Emergency Management Fund	0	1,438,400	1,461,600
SUBTOTAL - Other Appropriated Funds	0	1,438,400	1,461,600
SUBTOTAL - Appropriated Funds	11,369,100	12,676,700	12,559,800
Other Non-Appropriated Funds	78,100	420,000	210,000
Federal Funds	58,319,000	70,494,700	55,347,100
TOTAL - ALL SOURCES	69,766,200	83,591,400	68,116,900

^{1/} Includes 5.5 FTE Positions in FY 2019 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 2019.

^{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 \$1,700,000 National Guard Matching Funds appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2019 monies remaining unexpended and unencumbered on December 31, 2019 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 \$3,764,900 and 63.1 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Efficiency Savings

The budget includes a decrease of \$(130,000) from the General Fund in FY 2019 for efficiency savings realized through lower contract costs and reductions in employee travel and training.

Operating Budget Shift

The budget includes a decrease of \$(1,700,000) from the General Fund in FY 2019 for shifting resources to the National Guard Matching Funds line item. There is no net change in agency resources. *(Please see the National Guard Matching Funds narrative for more details.)*

Statewide Adjustments

The budget includes a decrease of \$(6,300) from the General Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocation section.)*

Emergency Management Matching Funds

The budget includes \$1,543,300 from the General Fund in FY 2019 for Emergency Management Matching Funds. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(3,800) from the General Fund in FY 2019 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 2018, DEMA expects to receive \$7,077,300 in EMPG funds.

DEMA utilized the \$1,540,900 General Fund appropriation from this line item, \$735,500 in General Fund monies from the Nuclear Emergency Management Fund line item, and \$737,100 in General Fund monies from the operating budget for a total of \$3,013,500, as a match towards their share of the EMPG. As a result, DEMA will retain

\$3,013,500 in EMPG monies for DEMA-specific expenditures.

The remaining \$4,063,800 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 2019 for the Governor's Emergency Fund. This amount is unchanged from FY 2018.

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 \$1,461,602 and 5.5 FTE Positions from the Nuclear Emergency Management Fund (NEMF) in FY 2019 for the Nuclear Emergency Management Program line item. FY 2019 adjustments are as follows:

NEMF Increase

The budget includes an increase of \$23,200 from NEMF in FY 2019 for the NEMF line item.

Laws 2017, Chapter 43 appropriated \$1,438,465 and 5.5 FTE Positions from NEMF in FY 2018 and \$1,461,602 and 5.5 FTE Positions 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 \$1,424,377 and 5.5 FTE Positions from the General Fund in FY 2017 for the program. Chapter 132 offset this General Fund appropriation with the NEMF fees, which were deposited into the General Fund.

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 ^{2/}	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.

2/ Laws 2017, Chapter 313 transferred all responsibilities and unexpended or unencumbered monies of the Arizona Radiation Regulatory Agency to the Department of Health Services on January 1, 2018.

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 Department of Emergency and Military Affairs, Department of Agriculture, and Department of Health Services (by way of the Radiation Regulatory Agency transfer) 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 Department of Health Services narratives for more information.)

Military Airport Planning

The budget includes \$90,000 and 1 FTE Position from the General Fund in FY 2019 for Military Airport Planning. These amounts are unchanged from FY 2018.

Prior to receiving a one-time deposit of \$2,500,000 in FY 2015, the Military Installation Fund had received no General Fund appropriation since FY 2011. The FY 2012 General Government Budget Reconciliation Bill (BRB) eliminated the annual \$4,825,000 General Fund deposit into the Military Installation Fund in statute. A.R.S. § 26-

263 retained the annual \$90,000 and 1 FTE Position administrative appropriation to the department and an annual \$85,000 appropriation to the Attorney General. Since these monies are appropriated in statute, they do not appear in the General Appropriation Act.

As of July 2017, the fund had an unreserved balance of \$1,839,900. The FY 2019 Criminal Justice BRB (Laws 2018, Chapter 278) allows the department to expend \$1,250,000 from the Military Installation Fund for the construction of a new Readiness Center. (Please see the Capital section for more information.)

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.

National Guard Matching Funds

The budget includes \$1,700,000 from the General Fund in FY 2019 for a new National Guard Matching Funds line item. FY 2019 adjustments are as follows:

Operating Budget Shift

The budget includes an increase of \$1,700,000 from the General Fund in FY 2019 for shifting resources to the National Guard Matching Funds line item. There is no net change in agency resources.

Because of the pass-through nature of these monies, the budget moves this funding out of the operating budget into this new line item. The line item provides state 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%.

The operations and maintenance for these facilities are paid through service contracts. The appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2019 monies remaining unexpended and unencumbered on December 31, 2019 revert to the state General Fund.

In FY 2017, DEMA was awarded \$24,671,200 in National Guard Military Operations and Maintenance Projects monies, which required matches from the state. The match for the 50%/50% portion was \$970,100 federal/\$970,100 state; the match for the 75%/25% portion was \$3,582,600 federal/\$1,194,200 state; and the match for the 95%/5% portion was \$2,886,100 federal/\$151,900 state for a total required match of \$2,316,200. To fund this match, DEMA used \$1,700,000 from the match appropriation, \$277,100 from the Military Affairs appropriation, and \$339,100 of matching funds received from Arizona Department of Administration (ADOA) Building Renewal appropriations.

DEMA estimates their FY 2018 match need is \$2,200,000. To fund that amount, DEMA is using the \$1,700,000 match appropriation plus \$500,000 in ADOA Building Renewal appropriations.

Department of Environmental Quality

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	13,777,300	17,933,200	17,933,200
Employee Related Expenditures	5,188,400	8,164,300	8,457,700
Professional and Outside Services	1,511,200	5,134,600	5,134,600
Travel - In State	321,800	378,300	378,300
Travel - Out of State	48,800	124,800	124,800
Other Operating Expenditures	13,048,400	14,510,600	13,217,500
Equipment	265,100	343,800	343,800
OPERATING SUBTOTAL	34,161,000	46,589,600	45,589,900
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	21,160,600	21,119,500	21,119,500
Safe Drinking Water Program	1,110,200	1,800,000	1,802,100
WQARF Priority Site Remediation	9,948,600	13,536,900	13,552,000 ^{1/2/3/}
AGENCY TOTAL	66,380,400	83,046,000	82,063,500 ^{4/}
FUND SOURCES			
General Fund	2,823,600	2,823,600	0
<u>Other Appropriated Funds</u>			
Air Quality Fund	6,452,100	7,381,900	9,382,900
Emergency Response Fund	112,600	132,800	132,800
Emissions Inspection Fund	29,397,600	30,610,100	33,087,700
Hazardous Waste Management Fund	1,304,800	1,744,300	1,742,400
Indirect Cost Recovery Fund	12,109,700	13,464,000	13,524,900 ^{5/}
Permit Administration Fund	5,448,200	10,876,300	7,146,800 ^{6/}
Recycling Fund	913,100	2,361,300	3,411,300
Safe Drinking Water Program Fund	0	1,800,000	1,802,100
Solid Waste Fee Fund	913,300	1,247,400	1,245,800
Underground Storage Tank Revolving Fund	0	22,000	30,200
Water Quality Fee Fund	6,905,400	10,582,300	10,556,600
SUBTOTAL - Other Appropriated Funds	63,556,800	80,222,400	82,063,500
SUBTOTAL - Appropriated Funds	66,380,400	83,046,000	82,063,500
Other Non-Appropriated Funds	46,762,900	66,072,500	62,872,500
Federal Funds	14,735,100	16,646,300	15,484,000
TOTAL - ALL SOURCES	127,878,400	165,764,800	160,420,000

AGENCY DESCRIPTION — The Department of Environmental Quality (ADEQ) enforces air, water, and land quality standards. The department's Office of Air Quality issues permits to regulate industrial air pollution sources, regulates vehicle emissions, monitors and assesses the ambient air, and develops air quality improvement strategies. The Office of Waste Programs implements programs to minimize waste generation, identifies and corrects improper waste management practices, and oversees the cleanup (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/} 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 2018, Chapter 280 reduced this transfer to \$0 in FY 2019, but utilizes balances of \$6,500,000 from the Emissions Inspection Fund, \$5,000,000 from the Air Quality Fund, and \$2,052,000 from the Recycling Fund to increase total appropriated WQARF funding to \$13,552,000.

Operating Budget

The budget includes \$45,589,900 and 322 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
Air Quality Fund	\$4,382,900
Emergency Response Commission	132,800
Emissions Inspection Fund	5,468,200
Hazardous Waste Management Fund	1,742,400
Indirect Cost Recovery Fund	13,524,900
Permit Administration Fund	7,146,800
Recycling Fund	1,359,300
Solid Waste Fee Fund	1,245,800
Underground Storage Tank Revolving Fund	30,200
Water Quality Fee Fund	10,556,600

FY 2019 adjustments are as follows:

Volkswagen Settlement Air Quality Backfill

The budget includes a decrease of \$(993,900) in FY 2019 from the Air Quality Fund to backfill Air Quality Fund expenditures with Volkswagen (VW) Settlement monies. VW Settlement monies would fund the Air Quality Program's personnel costs and monies from the Air Quality Fund would be transferred to the General Fund. *(Please see the Other Issues section for more information about Air Quality Fund Transfers.)*

(Please see the Attorney General section for more information about the Volkswagen Settlement monies.)

Statewide Adjustments

The budget includes a decrease of \$(5,800) in FY 2019 for statewide adjustments. This amount consists of:

Air Quality Fund	(5,100)
Emissions Inspection Fund	(22,400)

- 2/ 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 2019 report to the Joint Legislative Budget Committee on or before September 1, 2018. 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 2019. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 1, 2018, 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 2018, indicate whether the current stage of remediation is anticipated to be completed in FY 2019 and indicate the anticipated stage of remediation at each listed site at the end of FY 2019, assuming FY 2019 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)
- 3/ Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2020 budget for the Water Quality Assurance Revolving Fund before September 1, 2018, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 5/ All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,524,900 in FY 2019 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,524,900 in FY 2019, 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).
- 6/ All Permit Administration Fund monies received by the Department of Environmental Quality in excess of \$7,146,800 in FY 2019 are appropriated to the department. Before the expenditure of Permit Administration Fund monies in excess of \$7,146,800 in FY 2019, 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).

Hazardous Waste Management Fund	(1,900)
Indirect Cost Recovery Fund	60,900
Permit Administration Fund	(16,200)
Recycling Fund	(2,000)
Solid Waste Fee Fund	(1,600)
Underground Storage Tank Revolving Fund	8,200
Water Quality Fee Fund	(25,700)

(Please see the Agency Detail and Allocations section.)

The FY 2019 Environment Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 280) continues to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank Revolving (UST) Fund in FY 2019 for department administrative expenses. In addition, a new provision is added allowing for the fund to be used for remediating sewage discharge issues in Naco, Arizona.

Emissions Control Contractor Payment

The budget includes \$21,119,500 from the Emissions Inspection Fund in FY 2019 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2018.

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 2019 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.)

Safe Drinking Water Program

The budget includes \$1,802,100 from the Safe Drinking Water Program Fund in FY 2019 for the Safe Drinking Water Program. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase \$2,100 in FY 2019 from the Safe Drinking Water Program Fund for statewide adjustments.

The Safe Drinking Water Program Fund receives the first \$1,800,000 of Public Water System (PWS) tax revenues. Prior to FY 2018, this line item was funded from a \$1,800,000 transfer from the Emissions Inspection Fund.

ADEQ's expenditures for the Safe Drinking Water Program appear in Table 1.

Position or Function	Actual FY 2017	Estimated FY 2018
Direct Personnel	\$745,400	\$1,022,500
Indirect Cost Fund	333,500	451,700
Contracting	10,600	14,600
Travel	14,900	40,000
Other	5,800	271,200
Total	\$1,110,200	\$1,800,000

WQARF Priority Site Remediation

The budget includes \$13,552,000 in FY 2019 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

Air Quality Fund	5,000,000
Emissions Inspection Fund	6,500,000
Recycling Fund	2,052,000

FY 2019 adjustments are as follows:

WQARF Funding Increase

The budget includes a net overall increase of \$15,100 in FY 2019 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

General Fund	(2,823,600)
Air Quality Fund	3,000,000
Emissions Inspection Fund	2,500,000
Permit Administration Fund	(3,713,300)
Recycling Fund	1,052,000

Table 2 shows the WQARF Program funding levels in FY 2019 compared to FY 2018.

Fund	FY 2018 Approp.	FY 2019 Approp.
General Fund	\$2,823,600	\$0
Air Quality Fund	2,000,000	5,000,000
VEI Fund	4,000,000	6,500,000
Permit Admin Fund	3,713,300	0
Recycling Fund	<u>1,000,000</u>	<u>2,052,000</u>
TOTAL APPROP.	\$13,536,900	\$13,552,000
Non-Appropriated	<u>1,500,000</u>	<u>2,000,000</u>
TOTAL FUNDS	\$15,036,900	\$15,552,000

A.R.S. § 49-288 requires WQARF to be funded from an annual \$15,000,000 transfer from the Corporate Income Tax (CIT). 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 2019 Environment BRB continues to notwithstanding these statutory provisions and established in session law the FY 2019 appropriations. Additionally, the FY 2019 Environment BRB included a legislative intent statement that these amounts are to be supplemented by \$2,000,000 of non-appropriated monies directly deposited into WQARF, which consists of other revenue generated from various license and registration fees. With \$2,000,000 of non-appropriated funds, total WQARF funding would be \$15,552,000.

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

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Air Quality Fund	\$1,500,000	\$993,900
Hazardous Waste Management Fund	1,500,000	0
Monitoring Assistance Fund	500,000	0
Permit Administration Fund	3,000,000	0
Recycling Fund	2,000,000	0
Underground Storage Tank Revolving Fund	10,000,000	10,000,000
Voluntary Vehicle Repair and Retrofit Program Fund	2,500,000	0

Vehicle Emissions Inspection (VEI) Fees

The VEI Program generates more in fees than the cost of administering the program, but total expenditures exceed fees when factoring in monies used from the fund for other programs, as shown in *Table 3*.

Table 3

Emissions Inspection Fund

	Actual FY 2017	Estimated FY 2018	Estimated FY 2019
Revenues			
Balance Forward	\$16,257,900	\$12,896,100	\$10,623,500
Fees	<u>26,035,800</u>	<u>28,337,500</u>	<u>28,337,500</u>
Total Revenues	\$42,293,700	\$41,233,600	\$38,961,000
Expenditures			
Inspections ^{1/}	\$24,037,400	\$26,610,100	\$26,610,100
SDWP	1,110,200	0	0
WQARF	<u>4,250,000</u>	<u>4,000,000</u>	<u>5,000,000</u>
Total Expenditures	\$29,397,600	\$30,610,100	\$31,610,100
Total Balance	\$12,896,100	\$10,623,500	\$7,350,900

^{1/} Includes approximately \$5.5 million annually for ADEQ costs in the operating budget.

The FY 2019 Environment BRB 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. The 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 2019 Environment BRB modifies permanent law to allow ADEQ to utilize the Water Quality Fee Fund (WQFF) to help fund the Water Quality Monitoring Program. This was previously allowed in session law. Additionally, the FY 2019 Environment BRB modifies permanent law to allow WQFF monies to be used for the costs of producing aquifer pollution information reports, as required by A.R.S. § 49-249.

Additional revenues from operator certification fees, which were established in FY 2017, allow WQFF to absorb this expense. WQFF collected \$241,100 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 comes out of WQFF and the remaining \$364,500 comes out of WQARF. The WQARF revenues being utilized by the program come from Public Water System (PWS) tax revenues retained in WQARF after \$1.8 million of the PWS monies are utilized for the Safe Drinking Water Program.

Reclaimed Water Permits

The FY 2019 Environment BRB modifies permanent law to include the issuance of reclaimed water permits as an allowable use of the WQFF. Reclaimed water permit fees are already deposited to the fund.

Dredge and Fill Permit Program

The FY 2019 Environment BRB eliminates language in Laws 2018, Chapter 225 that would have erroneously repealed sections of statute and also repeals Chapter 225 if the Dredge and Fill Permit Program is not approved by the U.S. Environmental Protection Agency by August 1, 2023. This is a technical correction.

ADEQ Web Portal Development

The FY 2019 budget includes a transfer of \$3.2 million to the Arizona Department of Administration for Phase 5 of the ADEQ web portal, myDEQ, which will automate additional 7 permitting and compliance processes that are currently conducted with paper. This amount consists of:

Permit Administration Fund	1,800,000
Underground Storage Tank Revolving Fund	1,400,000

The FY 2019 Environment BRB allows the department to utilize monies from the UST Fund and the Permit Administration Fund in FY 2019 for e-licensing expenses. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

Between FY 2014 and FY 2019, a total of \$23.2 million has been appropriated to automate 71 business processes within ADEQ allowing customers to conduct additional permitting, billing, payment, and data submissions online. Before expending monies for Phase 5 of the project, ADEQ is required submit an expenditure plan to JLBC for review.

Beyond FY 2019, ADEQ estimates this project will cost an additional \$16.3 million and take an additional 3 years to complete.

Governor's Office of Equal Opportunity

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	137,300	128,300	128,300
Employee Related Expenditures	47,000	50,900	49,700
Professional and Outside Services	0	5,000	5,000
Travel - In State	0	1,200	1,200
Other Operating Expenditures	2,700	4,500	4,500
Equipment	0	2,000	2,000
AGENCY TOTAL	187,000	191,900	190,700 ^{1/}
FUND SOURCES			
General Fund	187,000	191,900	0
<u>Other Appropriated Funds</u>			
Personnel Division Fund	0	0	190,700
SUBTOTAL - Other Appropriated Funds	0	0	190,700
SUBTOTAL - Appropriated Funds	187,000	191,900	190,700
TOTAL - ALL SOURCES	187,000	191,900	190,700

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 \$190,700 and 4 FTE Positions from the Personnel Division Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Funding Shift

The budget includes a decrease of \$(189,100) and (4) FTE Positions from the General Fund and a corresponding increase of \$189,100 and 4 FTE Positions from the Personnel Division Fund in FY 2019 for a fund shift. (Please see the Department of Administration narrative for more information.)

Statewide Adjustments

The budget includes a decrease of \$(1,200) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(2,800)
Personnel Division Fund	1,600

(Please see the Agency Detail and Allocation section.)

Other Issues

Additional Legislation

Permitted Uses of Personnel Division Fund

As permanent law, the FY 2019 Budget Procedures Budget Reconciliation Bill (Laws 2018, Chapter 279) adds the Governor's Office of Equal Opportunity as an agency to which the Legislature may appropriate Personnel Division Fund monies. Prior law designated only the State Personnel Board and Department of Administration as such agencies.

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

State Board of Equalization

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7.0	7.0	7.0
Personal Services	245,200	274,200	274,200
Employee Related Expenditures	74,500	79,500	78,000
Professional and Outside Services	8,800	35,000	35,000
Travel - In State	8,800	8,800	8,800
Other Operating Expenditures	210,600	228,900	236,000
Equipment	0	20,000	20,000
AGENCY TOTAL	547,900	646,400	652,000^{1/}
FUND SOURCES			
General Fund	547,900	646,400	652,000
SUBTOTAL - Appropriated Funds	547,900	646,400	652,000
TOTAL - ALL SOURCES	547,900	646,400	652,000

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 32 current members, the 14 gubernatorial appointments also hear appeals of centrally-valued properties and equalization orders by the Department of Revenue.

Operating Budget

The budget includes \$652,000 and 7 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$5,600 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Board of Executive Clemency

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.5
Personal Services	405,100	519,200	645,800
Employee Related Expenditures	140,700	188,300	215,600
Professional and Outside Services	32,400	32,400	32,400
Travel - In State	1,100	13,600	13,600
Other Operating Expenditures	145,500	200,000	219,600
Equipment	10,300	10,000	10,000
AGENCY TOTAL	735,100	963,500	1,137,000 ^{1/2/}
FUND SOURCES			
General Fund	735,100	963,500	1,137,000
SUBTOTAL - Appropriated Funds	735,100	963,500	1,137,000
Other Non-Appropriated Funds	55,400	41,000	41,000
TOTAL - ALL SOURCES	790,500	1,004,500	1,178,000

AGENCY DESCRIPTION — The board consists of 1 full-time chairman and 4 full-time members. The board makes decisions regarding the discretionary release of inmates convicted prior to January 1, 1994 who are parole and/or home arrest eligible. The board holds hearings for the revocation of parole or community supervision for crimes convicted on or after January 1, 1994, and determines the modification of release conditions and release decisions. The board considers executive clemency actions such as pardons, commutations, and absolute discharges for eligible offenders.

Operating Budget

The budget includes \$1,137,000 and 14.5 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Board Member Pay Increase

The budget includes an increase of \$125,900 from the General Fund in FY 2019 for increased compensation for the 5 board members including the chairman and to pay for leave and holiday pay for the board members.

This increase will be used to raise the board member pay from \$46,932 to \$65,444 and the chairman from \$58,932 to \$68,932.

Part-Time Hearing Officer

The budget includes an increase of \$33,600 and 0.5 FTE Positions from the General Fund in FY 2019 for a part-time hearing officer. Offenders found to be in violation of the terms of their community supervision or parole are entitled to a hearing to establish probable cause prior to appearing before the board. This appropriation reinstates

the practice of a hearing officer conducting a hearing prior to the board's review.

Statewide Adjustments

The budget includes an increase of \$14,000 from the General Fund in FY 2019 for statewide adjustments. (Please see the *Agency Details and Allocations* section.)

Other Issues

Caseload Data

Pursuant to a footnote in the FY 2018 General Appropriation Act, the board submitted a report on its FY 2017 caseload. The board conducted 3,110 case hearings in FY 2017, as described below:

- Phases 1 and 2 Commutation (308): 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.

^{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, 2018 the total number and types of cases the board reviewed in FY 2018. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

- Pardon (14): The board may recommend that the Governor pardon an offender.
- Absolute Discharge (9): The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.
- Modification (0): The board can recommend to the Governor that an inmate's sentence be modified or commuted.
- Reprieve (0): The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.
- Parole (388): These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.
- Violator (2,391): These hearings are conducted when an offender has violated the terms of community supervision.

Arizona Exposition and State Fair Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.0	184.0	184.0
Personal Services	3,699,900	3,845,800	4,194,600
Employee Related Expenditures	974,200	1,018,600	1,065,800
Professional and Outside Services	3,386,700	3,664,600	3,664,600
Travel - In State	5,600	5,900	5,900
Travel - Out of State	16,100	16,000	16,000
Other Operating Expenditures	3,551,700	3,570,800	3,570,800
Equipment	31,600	31,600	31,600
AGENCY TOTAL	11,665,800	12,153,300	12,549,300 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Exposition and State Fair Fund	11,665,800	12,153,300	12,549,300
SUBTOTAL - Other Appropriated Funds	11,665,800	12,153,300	12,549,300
SUBTOTAL - Appropriated Funds	11,665,800	12,153,300	12,549,300
TOTAL - ALL SOURCES	11,665,800	12,153,300	12,549,300

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 \$12,549,300 and 184 FTE Positions from the Arizona Exposition and State Fair Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Proposition 206 Minimum Wage Increase

The budget includes an increase of \$411,600 from the Arizona Exposition and State Fair Fund in FY 2019 for salary increases associated with minimum wage increases from Proposition 206. The Arizona Exposition and State Fair hires outside vendors and temporary employees during the State Fair and must now pay a higher wage.

Statewide Adjustments

The budget includes a decrease of \$(15,600) from the Arizona Exposition and State Fair Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.1	69.1	73.1
Personal Services	2,417,700	2,787,600	3,417,000
Employee Related Expenditures	907,200	1,105,400	1,330,700
Professional and Outside Services	344,100	150,800	368,100
Travel - In State	4,300	6,000	24,600
Travel - Out of State	1,600	3,000	8,000
Other Operating Expenditures	535,100	566,000	726,000
Equipment	128,800	126,600	123,000
OPERATING SUBTOTAL	4,338,800	4,745,400	5,997,400
SPECIAL LINE ITEMS			
Real Estate Appraisal	537,700	682,400	0
AGENCY TOTAL	4,876,500	5,427,800	5,997,400 ^{1/2/}
FUND SOURCES			
General Fund	2,911,300	2,201,000	1,984,800
<u>Other Appropriated Funds</u>			
Board of Appraisal Fund	537,700	0	0
Financial Services Fund	1,427,500	3,226,800	3,962,600
Revolving Fund	0	0	50,000
SUBTOTAL - Other Appropriated Funds	1,965,200	3,226,800	4,012,600
SUBTOTAL - Appropriated Funds	4,876,500	5,427,800	5,997,400
Other Non-Appropriated Funds	1,224,800	1,334,800	889,800
TOTAL - ALL SOURCES	6,101,300	6,762,600	6,887,200

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. The department also regulates real estate appraisal entities.

Operating Budget

The budget includes \$5,997,400 and 73.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$1,984,800
Financial Services Fund	3,962,600
Revolving Fund	50,000

FY 2019 adjustments are as follows:

New Mortgage Lending Examiners

The budget includes an increase of \$358,300 and 4 FTE Positions from the Financial Services Fund in FY 2019 for 4 new examiners in the Mortgage Lending Division, including \$8,000 in one-time equipment costs. This division currently has 6 FTE Positions. Examiners in this division monitor and examine mortgage banker, broker and loan originator licenses.

New Money Services Examiner

The budget includes an increase of \$89,600 from the Financial Services Fund in FY 2019 for 1 new examiner in the Money Services Division, including \$2,000 in one-time equipment costs. In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will

^{1/} 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)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

use its existing FTE Position authority to hire additional staff. The Money Services Division currently has 2 FTE Positions. Examiners in this division monitor and examine collection agency, money transmitter, and sales finance company licenses.

New Financial Services Examiner

The budget includes an increase of \$89,600 from the Financial Services Fund in FY 2019 for 1 new examiner in the Financial Services Division, including \$2,000 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 additional staff. The Financial Services Division currently has 4 FTE Positions. Examiners in this division monitor and examine real estate appraiser, escrow agent, consumer lender, debt management company, and premium finance company licenses.

Fund Shift

The budget includes a decrease of \$(200,000) from the General Fund and a corresponding increase of \$200,000 from the Financial Services Fund in FY 2019 for a fund shift.

The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283), as permanent law, allows the agency to use the Financial Services Fund for general operating expenditures. This provision was included in previous-year BRBs as a session law.

Attorney General ISA Reallocation

The budget includes a decrease of \$(50,000) from the General Fund and a corresponding increase of \$50,000 from the Revolving Fund in FY 2019 to shift costs of an interagency service agreement with the Attorney General's office for services to help oversee real estate appraisers onto a non-General Fund source.

Real Estate Appraisal SLI Consolidation

The budget includes \$675,000 and 9 FTE Positions from the General Fund in FY 2019 to shift the real estate appraisal duties. These amounts were included as a special line item in FY 2018. The FY 2019 budget moves these amounts to the operating budget for no net change in the agency's overall budget.

Remove One-Time Funding

The budget includes a decrease of \$(6,000) from the Financial Services Fund in FY 2019 for the elimination of one-time equipment.

Statewide Adjustments

The budget includes an increase of \$45,500 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	41,200
Financial Services Fund	4,300

(Please see the Agency Detail and Allocations section.)

Real Estate Appraisal

The budget includes no funding in FY 2019 for the Real Estate Appraisal line item. FY 2019 adjustments are as follows:

SLI Consolidation

The budget includes a decrease of \$(675,000) from the General Fund in FY 2019 to consolidate the funding for this purpose in the department's operating budget.

Statewide Adjustments

The budget includes a decrease of \$(7,400) from the General Fund in FY 2019 for statewide adjustments.

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.

Other Issues

Licensing Replacement System

The budget includes an FY 2019 transfer of \$1,400,000 from the Receivership Revolving Fund to the Arizona Department of Administration for e-licensing system development. *(Please see the Department of Administration - Automation Projects Fund narrative for details regarding this information technology project.)*

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
Financial Services Fund	\$5,000,000	\$0
Mortgage Recovery Fund	460,000	0
Receivership Revolving Fund	50,000	0

Arizona Department of Forestry and Fire Management

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	67.0	88.0	88.0 ^{1/}
Personal Services	1,813,700	1,915,600	1,402,000
Employee Related Expenditures	703,200	738,500	529,900
Professional and Outside Services	54,600	54,600	40,000
Travel - In State	16,100	16,100	11,800
Travel - Out of State	12,800	12,800	9,400
Other Operating Expenditures	284,400	419,900	219,200
Equipment	9,500	9,500	7,000
OPERATING SUBTOTAL	2,894,300	3,167,000	2,219,300
SPECIAL LINE ITEMS			
Environmental County Grants	250,000	250,000	250,000
Fire Suppression	4,302,500	8,143,000 ^{2/}	4,065,000 ^{3/}
Hazardous Vegetation Removal	1,248,500	1,350,000 ^{2/}	2,000,000 ^{4/}
Inmate Firefighting Crews	605,200	699,100	692,400
Post-Release Firefighting Crews	0	1,465,100 ^{2/}	1,009,500
State Fire Marshal	670,000	753,200	747,900
State Fire School	169,900	173,100	172,600
AGENCY TOTAL	10,140,400	16,000,500	11,156,700 ^{5/}
FUND SOURCES			
General Fund	10,140,400	16,000,500	11,156,700
SUBTOTAL - Appropriated Funds	10,140,400	16,000,500	11,156,700
Other Non-Appropriated Funds	58,949,300	39,234,800	39,234,800
TOTAL - ALL SOURCES	69,089,700	55,235,300	50,391,500

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). The department includes the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training provided by the department must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona.

Operating Budget

The budget includes \$2,219,300 and 43 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Fund Shift to Trust Land Management Fund

The budget includes a decrease of \$(800,000) from the General Fund in FY 2019 for a cost shift to the Trust Land Management Fund. Pursuant to an interagency service agreement between the Department of Forestry and Fire Management and the State Land Department, \$800,000 of fire suppression activities on state trust lands will now be funded by the Trust Land Management Fund in the

^{1/} Includes 45 GF FTE Positions funded from Special Line Items in FY 2019.

^{2/} The department may use \$465,000 from the Post-Release Firefighting Crews line item and \$210,000 from the Hazardous Vegetation Removal line item appropriated to the department in FY 2018 for fire suppression costs incurred in FY 2017 and FY 2018. (General Appropriation Act footnote)

^{3/} A.R.S. § 37-1305 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.

^{4/} 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, 2020. (General Appropriation Act footnote)

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

State Land Department's budget. (Please see *State Land Department narrative for more information.*)

Remove One-Time Equipment

The budget includes a decrease of \$(139,900) from the General Fund in FY 2019 for the elimination of one-time equipment.

Statewide Adjustments

The budget includes a decrease of \$(7,800) from the General Fund in FY 2019 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 2019 for Environmental County Grants. This amount is unchanged from FY 2018.

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 2018, 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.
- \$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.
- \$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* for 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 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.
- \$25,000 for *Water Projects* for 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.
- \$12,500 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 2019 for Fire Suppression. FY 2019 adjustments are as follows:

Remove One-Time Supplemental Funding

The budget includes a decrease of \$(4,078,000) from the General Fund in FY 2019 for the elimination of a one-time FY 2018 supplemental appropriation for fire suppression costs incurred in previous fire seasons. The department uses cooperative fire management agreements with local, state, federal, and private partners to dispatch firefighters and aircraft units across the state to combat wildland fires on state land. The 2017-2018 fire season was exceptionally severe with 2,205 wildland fires affecting over 79,000 acres of state land. The supplemental appropriation funded the increased cost of the cooperative agreements due to the exceptionally high number of wildland fires in summer 2017.

These monies are used for fire suppression on state trust land and rural private land. A.R.S. § 37-1305 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. Of the amount appropriated for the Fire Suppression line item, \$65,000 is used annually to upgrade and maintain Fire Management software.

Hazardous Vegetation Removal

The budget includes \$2,000,000 from the General Fund in FY 2019 for a Hazardous Vegetation Removal program. FY 2019 adjustments are as follows:

Additional Funding

The budget includes an increase of \$650,000 from the General Fund in FY 2019 to provide additional funding for the program. The additional funding will be used to increase the number of fuel reduction grants the department issues to contractors to remove vegetation that fuels wildland fires.

This line item supports 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 2019 amount is non-lapsing through June 30, 2020.

Inmate Firefighting Crews

The budget includes \$692,400 and 13 FTE Positions from the General Fund in FY 2019 for Inmate Firefighting Crews. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(6,700) from the General Fund in FY 2019 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 \$1,009,500 and 20 FTE Positions from the General Fund in FY 2019 for Post-Release Firefighting Crews. FY 2019 adjustments are as follows:

Remove One-Time Equipment

The budget includes a decrease of \$(465,100) from the General Fund in FY 2019 for the elimination of one-time equipment.

Statewide Adjustments

The budget includes an increase of \$9,500 from the General Fund in FY 2019 for statewide adjustments.

Monies in this line item provide firefighting training for recently released inmates who previously participated in Inmate Firefighting Crews (*see preceding line item*). The Post-Release Firefighting Program allows program

participants to work towards completing their wildland firefighting certification following release from Department of Corrections custody.

State Fire Marshal

The budget includes \$747,900 and 11 FTE Positions from the General Fund in FY 2019 for the State Fire Marshal. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(5,300) from the General Fund in FY 2019 for statewide adjustments.

The Office of the State Fire Marshal enforces the state fire codes and provides training and education for fire personnel and the general public.

State Fire School

The budget includes \$172,600 and 1 FTE Position from the General Fund in FY 2019 for the State Fire School. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(500) from the General Fund in FY 2019 for statewide adjustments.

Monies in this line item primarily subsidize smaller rural volunteer fire departments attending Arizona State Fire School workshops which provide firefighting education. Generally, fire departments pay for tuition, but the firefighters pay for their room and board to attend the 4-day Fire School. The Arizona State Fire Training Committee, a non-profit organization, coordinates and manages the Fire School. The majority of Fire School workshops take place at the Mesa Convention Center in downtown Mesa with the exception of a few workshops that must be held at designated off-site locations.

Besides \$100,000 for subsidizing these costs, the remaining \$72,600 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes an FY 2018 supplemental appropriation of \$4,078,000 from the General Fund to pay for fire suppression costs incurred during previous fire seasons. (*Please see the Fire Suppression line item for more information.*)

State Board of Funeral Directors and Embalmers

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	204,100	214,100	214,100
Employee Related Expenditures	67,700	67,700	65,400
Professional and Outside Services	25,000	25,000	100,000
Travel - In State	1,900	5,000	5,000
Travel - Out of State	0	5,000	5,000
Other Operating Expenditures	63,600	61,400	53,900
AGENCY TOTAL	362,300	378,200	443,400 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Funeral Directors' and Embalmers' Fund	362,300	378,200	443,400
SUBTOTAL - Other Appropriated Funds	362,300	378,200	443,400
SUBTOTAL - Appropriated Funds	362,300	378,200	443,400
TOTAL - ALL SOURCES	362,300	378,200	443,400

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 Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$443,400 and 4 FTE Positions from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time E-Licensing

The budget includes a decrease of \$(24,000) from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for the removal of one-time e-licensing costs.

One-Time Document Scanning

The budget includes a one-time increase of \$75,000 from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for scanning and digitizing licensing documents.

Shared Services Costs

The budget includes an increase of \$2,600 from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$14,800 from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes a decrease of \$(3,200) from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$7,600 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Game and Fish Department

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	273.5	273.5	273.5
Personal Services	12,396,500	16,025,000	16,025,000
Employee Related Expenditures	9,586,600	12,995,100	12,910,200
Professional and Outside Services	576,600	685,100	685,100
Travel - In State	298,100	250,300	250,300
Travel - Out of State	125,700	161,100	161,100
Other Operating Expenditures	12,433,000	11,058,600	7,715,600
Equipment	1,292,100	947,300	947,300
OPERATING SUBTOTAL	36,708,600	42,122,500	38,694,600
SPECIAL LINE ITEMS			
Pittman-Robertson/Dingell-Johnson Act	0	0	3,058,000
Game and Fish Trucks	0	485,700	0
Watercraft Grants	0	1,000,000	1,000,000 ^{1/}
Watercraft Safety Equipment	0	701,000	0
AGENCY TOTAL	36,708,600	44,309,200	42,752,600^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Capital Improvement Fund	1,001,200	1,001,200	1,001,200
Game and Fish Fund	30,649,400	37,110,600	36,558,300
Game, Non-Game, Fish and Endangered Species Fund	111,300	346,800	347,200
Watercraft Licensing Fund	4,946,700	5,834,400	4,829,700
Wildlife Endowment Fund	0	16,200	16,200
SUBTOTAL - Other Appropriated Funds	36,708,600	44,309,200	42,752,600
SUBTOTAL - Appropriated Funds	36,708,600	44,309,200	42,752,600
Other Non-Appropriated Funds	28,378,700	31,258,800	31,258,800
Federal Funds	47,698,600	44,547,400	44,547,400
TOTAL - ALL SOURCES	112,785,900	120,115,400	118,558,800

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 \$38,694,600 and 273.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
Capital Improvement Fund	\$1,001,200
Game and Fish Fund	33,500,300
Game, Non-Game, Fish and Endangered Species Fund	347,200

Watercraft Licensing Fund	3,829,700
Wildlife Endowment Fund	16,200

FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(285,000) from the Watercraft Licensing Fund in FY 2019 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

^{1/} The Arizona Game and Fish Department may transfer \$1,000,000 from the Watercraft Grants line item to the operating budget. Before transferring monies from the Watercraft Grants line item to the operating budget, the department shall submit an expenditure plan for review by the Joint Legislative Budget Committee.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

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 2018 budget provided a total increase of \$513,800 for aquatic invasive species curtailment, with \$228,800 ongoing and \$285,000 one-time. The one-time amount included \$185,000 for the purchase of 6 new mobile decontamination units and contractor training for those units, and \$100,000 for internal scientific research on population control and continued development and implementation of a multi-state watercraft tracking database.

Line Item Funding Shift

The budget includes a decrease of \$(3,058,000) from the Game and Fish Fund in FY 2019 for a shift in resources from the operating budget to the Pittman-Robertson/Dingell-Johnson Act line item.

Statewide Adjustments

The budget includes a decrease of \$(84,900) in FY 2019 for statewide adjustments. This amount consists of:

Game and Fish Fund	(66,600)
Game, Non-Game, Fish and Endangered Species Fund	400
Watercraft Licensing Fund	(18,700)

(Please see the Agency Detail and Allocations section.)

Pittman-Robertson/Dingell-Johnson Act

The budget includes \$3,058,000 from the Game and Fish Fund in FY 2019 for a new Pittman-Robertson/Dingell-Johnson Act line item. FY 2019 adjustments are as follows:

Line Item Funding Shift

The budget includes an increase of \$3,058,000 from the Game and Fish Fund in FY 2019 for a shift in resources from the operating budget to the Pittman-Robertson/Dingell-Johnson Act line item.

This line item funds the state's 25% match for federal aid matching funds for wildlife restoration projects. The department also uses \$2.6 million in non-appropriated funds to match Pittman-Robertson/Dingell-Johnson Act grants.

Game and Fish Trucks

The budget includes no funding from the Game and Fish Fund in FY 2019 for Game and Fish Trucks. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(485,700) from the Game and Fish Fund in FY 2019 for the elimination of one-time funding for the replacement of law enforcement officer trucks.

Game and Fish law enforcement officers use heavy-duty, 4-wheel drive trucks to operate in remote, off-road locations throughout the state. This line item provided funding for replacement of 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 2019 for Watercraft Grants. This amount is unchanged from FY 2018.

Established in FY 2008, this line item provided funding for a competitive grant program for Arizona watercraft enforcement agencies. These grants were used by agencies to expand Operation Under the Influence enforcement efforts, such as purchasing equipment, paying officers' overtime, or funding prevention and education programs. This grant program was in addition to the Law Enforcement and Boating Safety Fund (LEBSF) Grant Program, which is administered by the State Treasurer. *(Please see State Treasurer narrative for more information.)*

In each of FY 2011 and FY 2012, session law allowed the State Parks Board (administrator of LEBSF grants at that time) to use a major portion of LEBSF monies for operating costs. To partially compensate enforcement entities for the loss in funding, the Game and Fish Department diverted funding from its Watercraft Safety Education program to the Watercraft Grants program. In FY 2013, the Legislature moved LEBSF grant administration to the State Treasurer and discontinued the allowance of LEBSF monies for State Parks Board operating costs. The Game and Fish Department consequently eliminated its Watercraft Grants program. The department has not distributed any monies from its Watercraft Grants line item since FY 2013.

An FY 2019 General Appropriation Act footnote allows the department to transfer the \$1,000,000 in the Watercraft Grants line item to the operating budget upon Joint Legislative Budget Committee review of an expenditure

plan for those monies. The line item is intended to be permanently shifted to the operating budget following that review.

Watercraft Safety Equipment

The budget includes no funding from the Watercraft Licensing Fund in FY 2019 for Watercraft Safety Equipment. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(701,000) from the Watercraft Licensing Fund in FY 2019 for the elimination of one-time funding for the replacement of 8 patrol boats, the repair of 4 patrol boats, and the continued implementation of free lifejacket loaner stations.

Game and Fish law enforcement officers use patrol boats to enforce boating safety laws on state waters. This line item provided funding to replace boats with passenger safety flaws and irreparable structural issues; repair boats that can extend their lives by replacing motors, upholstery, gelcoats and fixing fiberglass damage; and provide the public with lifejackets in case they do not have an adequate amount for their boating activities.

Other Issues

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Watercraft Licensing Fund	\$1,000,000	\$1,500,000

Additional Legislation

Capital Projects

The FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277) appropriates \$981,400 from the Game and Fish Fund and \$450,000 from the Capital Improvement Fund in FY 2019 for capital projects. These amounts are available for use through the end of FY 2020. Chapter 277 also extends the lapsing date of an FY 2017 capital improvements appropriation 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

The Game and Fish In-Lieu Fee Program Restoration Endowment Trust Fund (In-Lieu Trust Fund) is used by the

Game and Fish Department to fulfill its duties as a state in-lieu agent of the federal Clean Water Act of 1972. Entities who cannot avoid adversely affecting navigable waters must pay a compensatory fee for a permit. Those revenues are then spent on federally-authorized restoration projects. Laws 2018, Chapter 225 allows the Department of Environmental Quality to adopt its own state Dredge and Fill Permit Program, where permittees would fulfill Clean Water Act requirements through the state program. Chapter 225 expands qualifying entities of the In-Lieu Trust Fund to include permittees of the state Dredge and Fill Permit program.

Non-Resident Off-Highway Vehicle User Indicia

Laws 2018, Chapter 184 authorizes the Game and Fish Department to sell non-resident off-highway vehicle user indicia. It also allows AGFD to impose additional service fees on indicia transactions, to be deposited into the Game and Fish Fund. Chapter 184 expands the purpose of both the Game and Fish Fund and the Off-Highway Vehicle User Recreation (OHV) Fund to include administration of the indicia program. Prior law had restricted department use of the OHV Fund to only informational and educational programs and law enforcement.

Repeal of License Fee Limitations

Laws 2018, Chapter 103 repeals the limitation on watercraft and boating license fees, which capped fee collections at 150% of the department's FY 2013 appropriation from the Watercraft Licensing Fund. Additionally, Chapter 103 repeals the limitation on fees for hunting and fishing licenses, permits, tags and stamps, which capped fee collections at 150% of the department's FY 2013 appropriation from the Game and Fish Fund.

Prior law provided compensation to license dealers by allowing retainage of 5% of the sale price of each license or permit. Chapter 103 repeals that provision and instead allows license dealers to collect and retain a reasonable fee in addition to the license fee.

Department of Gaming

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	155.8	155.8	155.8 ^{1/}
Personal Services	3,859,700	4,686,100	4,686,100
Employee Related Expenditures	1,532,000	1,564,500	1,623,700
Professional and Outside Services	379,400	409,100	1,163,300
Travel - In State	267,800	250,700	250,700
Travel - Out of State	43,800	30,000	30,000
Other Operating Expenditures	1,048,100	1,088,800	1,104,600
Equipment	85,400	266,300	266,300
OPERATING SUBTOTAL	7,216,200	8,295,500	9,124,700
SPECIAL LINE ITEMS			
Additional Operating Expenses	372,300	768,400	0
Arizona Breeders' Award	236,500	250,000	250,000
Casino Operations Certification	1,488,500	2,105,400	2,091,300
County Fairs Livestock and Agriculture Promotion	1,779,500	1,779,500	1,779,500 ^{2/}
Division of Racing	2,067,900	1,917,900	1,901,100
Problem Gambling	2,264,700	2,287,000	2,290,600
AGENCY TOTAL	15,425,600	17,403,700	17,437,200 ^{3/}
FUND SOURCES			
General Fund	1,979,500	1,779,500	1,779,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	9,553,200	11,050,900	11,115,300
Racing Regulation Fund	2,104,400	2,167,900	2,151,100
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,488,500	2,105,400	2,091,300
SUBTOTAL - Other Appropriated Funds	13,446,100	15,624,200	15,657,700
SUBTOTAL - Appropriated Funds	15,425,600	17,403,700	17,437,200
Other Non-Appropriated Funds	1,510,800	1,420,800	1,421,100
TOTAL - ALL SOURCES	16,936,400	18,824,500	18,858,300

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. The department's responsibilities include the Division of Racing.

Administrative Expenses

The budget includes \$9,124,700 in FY 2019 for administrative expenses. The appropriation serves as a cap on the level of spending. The department's permissible 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 administrative 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 2019, 9% of tribal gaming revenues are forecasted to be \$8,457,900. (See *Gaming Revenues* for further details.)

^{1/} Includes 73.5 OF FTE Positions funded from Special Line Items in FY 2019.

^{2/} 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)

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

The budget includes expenditure authority for \$9,124,700 in FY 2019. The department cannot expend above the actual 9% level.

Problem Gambling

The budget includes \$2,290,600 in FY 2019 for Problem Gambling, which consists of \$1,990,600 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

The department's permissible 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 2019, 2% of tribal gaming revenues are forecasted to be \$1,879,500. The budget includes Arizona Benefits Fund expenditure authority for \$1,990,600 in FY 2019. The department cannot expend above the actual 2% level.

Operating Budget

The budget includes \$9,124,700 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shift Additional Operating Expenses Funding

The budget includes an increase of \$768,400 from the Arizona Benefits Fund in FY 2019 to shift funding for the Additional Operating Expenses line item to the department's operating budget.

Remove Legal Counsel Funding

The budget includes a decrease of \$(14,200) from the Arizona Benefits Fund in FY 2019 to reflect a reduction in legal expenses following the conclusion of a litigation dispute with the Tohono O'odham Nation.

Statewide Adjustments

The budget includes an increase of \$75,000 from the Arizona Benefits Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Additional Operating Expenses

The budget includes no funding in FY 2019 for the Additional Operating Expenses line item. FY 2019 adjustments are as follows:

Shift Additional Operating Expenses Funding

The budget includes a decrease of \$(768,400) from the Arizona Benefits Fund in FY 2019 to shift funding from the

Additional Operating Expenses line item to the department's operating budget.

Monies in this line item were intended to align spending with the 9% of projected tribal contributions in the event that gaming revenues from tribal contributions exceeded the projected amount.

Arizona Breeders' Award

The budget includes \$250,000 from the Racing Regulation Fund in FY 2019 for the Arizona Breeders' Award. This amount is unchanged from FY 2018.

This line item funds awards to the breeder of every winning horse foaled in the state. In FY 2018, this line item funded awards equal to 40% of the purse won by the horse.

Casino Operations Certification

The budget includes \$2,091,300 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2019 for Casino Operations Certification. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(14,100) from the Tribal-State Compact Fund in FY 2019 for statewide adjustments.

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

County Fairs Livestock and Agriculture Promotion

The budget includes \$1,779,500 from the General Fund in FY 2019 for County Fairs Livestock and Agriculture Promotion. This amount is unchanged from FY 2018.

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 \$1,901,100 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2019 for operating costs associated with the Division of Racing. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(16,800) from the Racing Regulation Fund in FY 2019 for statewide adjustments.

The Racing Wagering Assessment (RWA) is a regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee. All monies received from the RWA are deposited into the Racing Regulation Fund, which is the primary funding source for the Division of Racing.

The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283) maintains the RWA rate at 0.5% in FY 2019 only.

The Division of Racing regulates the pari-mutuel horse 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.

The FY 2019 Revenue BRB directs all boxing and mixed martial arts-related revenues, excluding licensing fees, to be deposited into the Unarmed Combat Subaccount within the Racing Regulation Fund in FY 2019. These monies were previously deposited into the General Fund. (Please see *Other Issues - Additional Legislation* section for more information.)

Problem Gambling

The budget includes \$2,290,600 and 5 FTE Positions in FY 2019 for Problem Gambling. These amounts consist of:

	FY 2019
Arizona Benefits Fund	\$1,990,600
State Lottery Fund	300,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$3,600 from the Arizona Benefits Fund in FY 2019 for statewide adjustments.

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 \$1,990,600 in FY 2019 from the Arizona Benefits Fund. (See *Table 2* for more information on projected state revenues and department allocations.)

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.

There are currently 16 tribes operating a total of 24 Class III casinos 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 1* displays the maximum number of gaming devices allowed under the Tribal-State Gaming Compacts.

	FY 2006	FY 2018	Allowed by Compacts
Poker and Blackjack Tables	455	482	3,318 ^{1/}
Slot Machines	<u>12,354</u>	<u>15,263</u>	<u>18,158</u> ^{2/}
Total	12,809	15,745 ^{3/}	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.

^{3/} Figures do not include Desert Diamond West Valley Casino. The casino is currently undergoing a \$400 million facilities expansion which includes adding 75 betting tables and 1,090 slot machines by January 2019.

Gaming Revenues

From FY 2017 to FY 2018, state gaming revenues increased by 4.6% to \$93,976,900. Gaming revenues are assumed to remain flat at a level of \$93,976,900 in FY 2019. This estimate serves as the basis for calculating the projected FY 2019 amounts available for administrative expenses and problem gambling. (See *Administrative Expenses and Problem Gambling sections for further details. See Table 2 for more information on projected state revenues and department allocations.*)

Additional Legislation

FY 2019 Department of Gaming Omnibus

Laws 2018, Chapter 318 modifies statutes relating to the Arizona Department of Gaming, Division of Racing, and Commission of Boxing and Mixed Martial Arts. Chapter 318 also includes the following provisions:

Boxing and Mixed Martial Arts Revenue

Chapter 318 permanently establishes the Unarmed Combat Subaccount within the Racing Regulation Fund

and directs all boxing and mixed martial arts-related revenues, excluding licensing fees, to be deposited into the Unarmed Combat Subaccount. This provision is also included as session law in the FY 2019 Revenue BRB. (Please see *Division of Racing line item for more information.*)

Rural County Fair Racing

Chapter 318 establishes the Rural County Fair Racing Fund (RCFRF) and transfers \$200,000 from the Racing Regulation Fund to the RCFRF in FY 2019 to fund a matching grant pilot program. Grants of no more than \$40,000 will be awarded on a first-come, first-served basis to counties with a population of less than 800,000 that contribute at least 50% in matching grant funding. Chapter 318 repeals the RCFRF at the end of FY 2020.

Racing Licensing

Chapter 318 extends the racing licensing period from 3 years to 5 years. The Division of Racing currently collects \$291,300 in annual revenue from licensing fees under the 3-year licensing cycle.

Table 2

Tribal Gaming Distributions Pursuant to Proposition 202 ^{1/}

Recipient	Proposition 202 Formula	FY 2016 Actual ^{1/}	FY 2017 Actual ^{1/}	FY 2018 Actual ^{1/}	FY 2019 Projected
State Government Distribution	88% of total	\$ 90,752,600	\$ 89,839,300	\$ 93,976,900	\$ 93,976,900 ^{2/}
Local Government Distribution ^{3/}	12% of total	<u>12,375,400</u>	<u>12,250,900</u>	<u>12,815,000</u>	<u>12,815,000</u>
Total	100% of total	\$103,128,000	\$102,090,200	\$106,791,900	\$106,791,900
Allocation of State Government's Share					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,167,700	\$ 8,083,800	\$ 8,457,900 ^{4/}	\$ 8,457,900 ^{4/}
Department of Gaming Problem Gambling	2%	<u>1,815,100</u>	<u>1,796,800</u>	<u>1,879,500 ^{5/}</u>	<u>1,879,500 ^{5/}</u>
Subtotal-Department of Gaming		\$ 9,982,800	\$ 9,880,600	\$ 10,337,400	\$ 10,337,400
Instructional Improvement Fund (Department of Education)	56% of remainder	45,231,200	44,776,900	46,838,200	46,838,200
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	22,615,500	22,388,400	23,419,100	23,419,100
Arizona Wildlife Conservation Fund	8% of remainder	6,461,600	6,396,700	6,691,100	6,691,100
Tourism Fund	8% of remainder	<u>6,461,600</u>	<u>6,396,700</u>	<u>6,691,100</u>	<u>6,691,100</u>
Total		\$ 90,752,700	\$ 89,839,300	\$ 93,976,900	\$ 93,976,900

^{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 2019 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 2018 appropriation includes \$9,063,900 and the FY 2019 appropriation includes \$9,124,700, 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 only expend \$8,457,900 for operating expenditures in FY 2018 and FY 2019, as 9% of projected revenue is greater than \$8,000,000.

^{5/} While the FY 2018 appropriation includes \$1,987,000 and the FY 2019 appropriation includes \$1,990,600, 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 \$1,879,500 for problem gambling expenditures in FY 2018 and FY 2019.

Office of the Governor

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	6,724,900	6,921,400	7,038,800 ^{1/2/3/}
SPECIAL LINE ITEMS			
Computer Science Initiative	0	200,000	0
Foster Youth Education Success Program	0	1,500,000	1,500,000 ^{4/}
School Leadership Training	0	250,000	0
AGENCY TOTAL	6,724,900	8,871,400	8,538,800
FUND SOURCES			
General Fund	6,724,900	8,871,400	8,538,800
SUBTOTAL - Appropriated Funds	6,724,900	8,871,400	8,538,800
Other Non-Appropriated Funds	4,814,700	2,485,700	2,485,700
Federal Funds	16,204,900	27,015,700	27,015,700
TOTAL - ALL SOURCES	27,744,500	38,372,800	38,040,200

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 \$7,038,800 from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Efficiency Savings

The budget includes a decrease of \$(44,400) from the General Fund in FY 2019 for efficiency savings.

Statewide Adjustments

The budget includes an increase of \$161,800 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Computer Science Initiative

The budget includes no funding from the General Fund in FY 2019 for a Computer Science Initiative. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(200,000) from the General Fund in FY 2019 for a Computer Science Initiative. The initiative developed 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.

^{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 \$7,038,800 for FY 2019 is \$10,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{4/} A. The sum of \$1,000,000 is appropriated from the state General Fund in FY 2019 to the Office of the Governor for deposit in the Foster Youth Education Success Fund established by A.R.S. § 41-108.
 B. In addition to the monies appropriated in subsection A of this section, the sum of \$500,000 is appropriated from the state General Fund in FY 2019 to the Office of the Governor for deposit in the Foster Youth Education Success Fund established by established by A.R.S. § 41-108, to be spent when matching monies, including matching monies of less than \$500,000, from sources other than this state of other public monies, gifts, grants and donations are collected by the Office of the Governor and deposited in the fund.
 C. 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 under subsection B of this section.
 D. The appropriations made in subsections A and B of this section are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

Foster Youth Education Success Program

The budget includes \$1,500,000 from the General Fund in FY 2019 for the Foster Youth Education Success Program. FY 2019 adjustments are as follows:

Continue One-Time Funding

The budget includes no net change in FY 2019 to continue one-time funding for the Foster Youth Education Success Program. An FY 2019 General Appropriation Act footnote continues to require that \$500,000 of the \$1,500,000 only be made available upon receipt of matching monies from sources other than this state. The Office of the Governor shall provide an accounting to JLBC to determine whether the amounts received from other sources qualify for state match.

Laws 2016, Chapter 248 established the Foster Youth Education Success Program within the Office of the Governor to improve the educational outcomes of children in Arizona's foster care system. The funding in this line item, along with private donations received by the program, is for a contract with a provider of educational case management services for school-age foster youth. In FY 2018, the Office of the Governor reported receiving donations of \$422,020 through June 5, 2018. The vendor used the appropriated and donated monies to expand the program's availability from Pima County to Maricopa County by increasing program staffing from 5 positions to 15 positions. At current staffing levels, the vendor is expected to have ongoing caseloads of approximately 250 foster children.

School Leadership Training

The budget includes no funding from the General Fund in FY 2019 for School Leadership Training. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2019 for School Leadership Training.

The initiative established 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 is required to submit to the President of the Senate and the Speaker of the House of Representatives a report that summarized 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 was

required to provide a copy of this report to the Secretary of State.

Governor's Office of Strategic Planning and Budgeting

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	22.0	22.0	22.0
Personal Services	1,278,600	1,330,900	1,330,900
Employee Related Expenditures	419,800	382,100	369,700
Professional and Outside Services	283,400	92,500	92,500
Travel - In State	500	100	100
Travel - Out of State	7,900	0	0
Other Operating Expenditures	212,500	207,200	227,100
Equipment	26,600	1,800	1,800
AGENCY TOTAL	2,229,300	2,014,600	2,022,100 ^{1/2/}
FUND SOURCES			
General Fund	2,229,300	2,014,600	2,022,100
SUBTOTAL - Appropriated Funds	2,229,300	2,014,600	2,022,100
TOTAL - ALL SOURCES	2,229,300	2,014,600	2,022,100

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 \$2,022,100 and 22 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Efficiency Savings

The budget includes a decrease of \$(10,100) from the General Fund in FY 2019 for efficiency savings.

Statewide Adjustments

The budget includes an increase of \$17,600 from the General Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,065.5	1,065.5	1,100.0 ^{1/}
Personal Services	19,719,500	21,145,500	20,970,500
Employee Related Expenditures	7,812,700	8,666,200	8,404,500
Professional and Outside Services	1,432,800	1,672,300	1,672,300
Travel - In State	382,700	399,300	399,300
Travel - Out of State	78,400	71,600	71,600
Other Operating Expenditures	14,899,000	13,437,700	12,045,200
Equipment	551,400	1,988,800	1,988,800
OPERATING SUBTOTAL	44,876,500	47,381,400	45,552,200
SPECIAL LINE ITEMS			
Arizona State Hospital			
Arizona State Hospital-Operating	57,572,400	61,540,300	60,900,200 ^{2/}
Arizona State Hospital-Restoration to Competency	574,500	900,000	900,000 ^{3/}
Arizona State Hospital-Sexually Violent Persons	8,996,900	9,766,900	9,684,900 ^{4/}
Public Health/Family Health			
Adult Cystic Fibrosis Care	105,200	105,200	105,200
AIDS Reporting and Surveillance	963,200	1,000,000	1,000,000
Alzheimer's Disease Research	2,125,000	2,125,000	3,125,000 ^{5/}
Biomedical Research Support	1,501,300	2,000,000	2,000,000 ^{6/}
Pediatric Neurological Autoimmune Disorders Research	83,400	0	0
Breast and Cervical Cancer and Bone Density Screening	896,100	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	500,300	590,700	590,700
Emergency Medical Services Local Allocation	442,000	442,000	442,000
Folic Acid Program	362,300	400,000	400,000
High Risk Perinatal Services	2,180,300	2,543,400	2,543,400
Homeless Pregnant Women Services	0	0	100,000 ^{7/}
Newborn Screening Program	6,366,300	7,242,100	7,227,400
Nursing Care Special Projects	22,700	100,000	100,000
Poison Control Centers Funding	990,000	990,000	990,000
Nonrenal Disease Management	0	198,000	198,000 ^{8/}
Renal Dental Care and Nutrition Supplements	225,000	300,000	300,000
Renal Transplant Drugs	0	183,000	183,000
Public Health Emergencies Fund Deposit	0	500,000	0
State Loan Repayment Program	0	1,000,000	1,000,000
Radiation Regulation			
Radiation Regulation	0	0	1,633,800
Nuclear Emergency Management Program	0	0	789,700
AGENCY TOTAL	128,783,400	140,677,400	141,134,900 ^{9/10/}
FUND SOURCES			
General Fund	81,588,700	87,670,300	89,931,200
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	8,363,300	6,808,800	2,590,300
ASH Land Earnings Fund	738,800	970,000	650,000
Capital Outlay Stabilization Fund	1,548,500	1,559,900	230,100
Child Fatality Review Fund	93,300	96,900	95,700
Consumer Restitution and Remediation Revolving Fund - Consumer Remediation Subaccount	0	400,600	0
Disease Control Research Fund	83,400	0	1,000,000

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
Emergency Medical Services Operating Fund	5,061,600	6,248,100	5,731,300
Environmental Laboratory Licensure Revolving Fund	841,100	930,400	929,200
Federal Child Care and Development Fund Block Grant	831,800	887,900	879,900
TTHCF - Health Research Account	3,501,300	4,000,000	5,000,000
Health Services Licensing Fund	8,913,500	9,372,700	10,937,200
Health Services Lottery Monies Fund	0	0	100,000
DHS Indirect Cost Fund	8,447,500	9,581,300	10,141,700
Newborn Screening Program Fund	6,799,100	7,674,900	7,660,200
Nuclear Emergency Management Fund	0	0	789,700
Nursing Care Institution Resident Protection Revolving Fund	22,700	138,200	138,200
TTHCF - Medically Needy Account	587,300	700,000	700,000
Vital Records Electronic Systems Fund	1,361,500	3,637,400	3,630,200
SUBTOTAL - Other Appropriated Funds	47,194,700	53,007,100	51,203,700
SUBTOTAL - Appropriated Funds	128,783,400	140,677,400	141,134,900
Other Non-Appropriated Funds	66,326,100	85,955,000	80,928,200
Federal Funds	258,011,600	252,079,500	252,264,100
TOTAL - ALL SOURCES	453,121,100	478,711,900	474,327,200

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 transferred to the Department of Health Services.

- 1/ Includes 730 GF and 58.6 OF FTE Positions funded from Special Line Items in FY 2019.
- 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 \$3,125,000 for Alzheimer's Disease Research, \$3,000,000 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 shall distribute monies appropriated for Homeless Pregnant Women Services to nonprofit organizations that are located in a county with a population of more than 3 million persons and whose primary function is to provide shelter, food, clothing and transportation for health services and support to homeless pregnant women and their children who are under the age of one year. Monies may not be granted for abortion referral services or distributed to entities that promote, refer or perform abortions. (General Appropriation Act footnote)
- 8/ 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)
- 9/ The Department of Health Services shall electronically forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

DHS' FY 2019 General Fund spending increases by \$2,260,900 from FY 2018. Total appropriated spending increases by \$457,500. The budget includes the following General Fund changes:

- \$1,200,000 to transfer funding from AHCCCS to ASH.
- \$2,995,600 to eliminate the 31% county share of the cost of daily care for Sexually Violent Persons (SVPs).
- \$(250,000) to shift the cost of 4 FTE Positions in the Vital Records program from the General Fund.
- \$(1,000,000) for an AIDS Reporting and Surveillance funding shift.
- \$787,600 for transfer of the Radiation Regulatory Agency to DHS.
- \$(773,400) for a Radiation Regulation funding shift.
- \$(900) for elimination of a one-time named claimants appropriation.
- \$(698,000) for statewide adjustments.

In addition, the budget includes the following \$(1,803,400) in changes from other appropriated fund sources:

- \$(1,200,000) as part of a transfer of funding from AHCCCS to ASH.
- \$(2,995,600) to eliminate the 31% county share of the cost of daily care for SVPs.
- \$(320,000) for elimination of a one-time ASH equipment appropriation.
- \$1,000,000 for an AIDS Reporting and Surveillance funding shift.
- \$(500,000) for elimination of a one-time deposit to the Public Health Emergencies Fund.
- \$1,000,000 for Alzheimer's Research.
- \$100,000 for a new Homeless Pregnant Women Services line item.
- \$1,646,400 for transfer of the Radiation Regulatory Agency to DHS, including the Nuclear Emergency Management Program line item.
- \$773,400 for a Radiation Regulation funding shift.
- \$(400,600) for removal of a one-time FY 2018 supplemental for an Opioid Abuse Prevention Campaign.
- \$(907,000) for statewide adjustments.

Operating Budget

The budget includes \$45,552,200 and 311.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$16,031,700

Capital Outlay Stabilization Fund	230,100
Child Fatality Review Fund	95,700
Emergency Medical Services (EMS) Operating Fund	3,839,300
Environmental Laboratory Licensure Revolving Fund	929,200
Federal Child Care and Development Fund (CCDF) Block Grant	879,900
Health Services Licensing Fund	9,303,400
DHS Indirect Cost Fund	10,141,700
Newborn Screening Program Fund	432,800
Nursing Care Institution Resident Protection Revolving Fund	38,200
Vital Records Electronic Systems Fund	3,630,200

FY 2019 adjustments are as follows:

Vital Records FTE Positions Funding Shift

The budget includes a decrease of \$(250,000) from the General Fund in FY 2019 to shift funding for 4 FTE Positions in the Vital Records program to the Vital Records Electronic Systems Fund. The existing fund appropriation is sufficient to cover the cost of the positions.

Opioid Abuse Prevention Campaign

The budget includes a decrease of \$(400,600) from the Consumer Restitution and Remediation Revolving Fund - Consumer Remediation Subaccount in FY 2019 for the elimination of one-time funding for an opioid abuse prevention campaign. Laws 2018, 1st Special Session, Chapter 1 appropriated this amount to DHS in FY 2018 for an Opioid Abuse Prevention Campaign. Pursuant to A.R.S. § 36-123, DHS is required to develop a campaign targeting youth and at-risk populations that includes graphic detail of the harmful effects of opioid and prescription drug abuse and law enforcement consequences.

Named Claimants

The budget includes a decrease of \$(900) from the General Fund in FY 2019 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 a decrease of \$(1,177,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(304,600)
Capital Outlay Stabilization Fund	(1,329,800)
Child Fatality Review Fund	(1,200)
Emergency Medical Services (EMS) Operating Fund	(16,800)
Environmental Laboratory Licensure Revolving Fund	(1,200)

Federal Child Care and Development Fund (CCDF) Block Grant	(8,000)
Health Services Licensing Fund	(69,300)
Indirect Cost Fund	560,400
Vital Records Electronic Systems Fund	(7,200)

(Please see the Agency Detail and Allocations section.)

Arizona State Hospital

ASH - Operating

The budget includes \$60,900,200 and 616.5 FTE Positions in FY 2019 for the ASH operating budget. These amounts consist of:

General Fund	58,559,900
ASH Fund	1,690,300
ASH Land Earnings Fund	650,000

FY 2019 adjustments are as follows:

AHCCCS General Fund Transfer

The budget includes a decrease of \$(1,200,000) from the Arizona State Hospital Fund and a corresponding increase of \$1,200,000 from the General Fund in FY 2019 to transfer funding from the AHCCCS Non-Medicaid Seriously Mentally Ill (SMI) line item to address an ongoing shortfall in the ASH Fund. (Please see the Other Issues section for more information on the ASH Fund deficit.)

Prior year budgets included a footnote requiring AHCCCS to transfer this funding to DHS. In FY 2019, the budget replaces this footnote with a direct appropriation of funding to DHS.

Remove One-Time Funding

The budget includes a decrease of \$(320,000) from the ASH Land Earnings Fund in FY 2019 for the elimination of a one-time appropriation to purchase new beds and light fixtures for ASH patient rooms.

Statewide Adjustments

The budget includes a decrease of \$(320,100) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(344,000)
ASH Fund	23,900

Background – This line item funds 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 2017, ASH had an average monthly census of 95 patients in its civil commitment unit, 115 patients in its forensic unit, and 100 Sexually Violent Persons (SVP), for a total of 310 patients.

ASH - Restoration to Competency

The budget includes \$900,000 from the ASH Fund in FY 2019 for ASH - Restoration to Competency. This amount is unchanged from FY 2018.

The FY 2019 Health Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 284) 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 2017, there was an average monthly census of 2 RTC patients treated at ASH. RTC patients are treated in ASH’s forensic unit.

ASH - Sexually Violent Persons

The budget includes \$9,684,900 and 112.5 FTE Positions from the General Fund in FY 2019 for ASH - Sexually Violent Persons. FY 2019 adjustments are as follows:

Remove County Payments

The budget includes a decrease of \$(2,995,600) from the Arizona State Hospital Fund and a corresponding increase of \$2,995,600 from the General Fund in FY 2019. Since FY 2010, counties that have sent SVPs to ASH have been responsible for 31% of the daily cost of care. County payments are deposited to the ASH Fund. The FY 2019 Health BRB removes this requirement, and shifts the full cost of SVP care to the state.

Statewide Adjustments

The budget includes a decrease of \$(82,000) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(35,200)
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 2017, ASH had an average monthly census of 100 Sexually Violent Persons (SVPs).

Public Health/Family Health

Adult Cystic Fibrosis Care

The budget includes \$105,200 from the General Fund in FY 2019 for Adult Cystic Fibrosis Care. This amount is unchanged from FY 2018.

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 Disease Control Research Fund in FY 2019 for AIDS Reporting and Surveillance. FY 2019 adjustments are as follows:

Fund Shift

The budget includes a decrease of \$(1,000,000) from the General Fund and a corresponding increase of \$1,000,000 from the Disease Control Research Fund in FY 2019 to shift funding for AIDS Reporting and Surveillance.

The FY 2019 Health BRB, as session law, notwithstanding A.R.S. § 36-273 to allow monies in the Disease Control Research Fund to be used for AIDS Reporting and Surveillance.

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 2,159 clients in FY 2017.

Alzheimer’s Disease Research

The budget includes \$3,125,000 in FY 2019 for Alzheimer’s Disease Research. This amount consists of:

General Fund	125,000
TTHCF - Health Research Account	3,000,000

FY 2019 adjustments are as follows:

One-Time Continuation and Increase

The budget includes an increase of \$1,000,000 from the TTHCF - Health Research Account in FY 2019 for a one-time continuation and increase of Alzheimer’s research funding. The FY 2018 budget increased the appropriation from the TTHCF - Health Research Account by \$1,000,000 on a one-time basis. The FY 2019 budget continues this increase and appropriates \$1,000,000 ongoing and \$2,000,000 total one-time. The FY 2019 Health BRB continues to permit the department to use TTHCF - Health Research Account monies for Alzheimer’s disease research.

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.

Biomedical Research Support

The budget includes \$2,000,000 from the TTHCF - Health Research Account in FY 2019 for Biomedical Research Support. This amount is unchanged from FY 2018.

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 funds 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 2017 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 2017 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.

Breast and Cervical Cancer and Bone Density Screening

The budget includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2019 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2018.

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 2019 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2018.

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 2019 for the Emergency Medical Services Local Allocation line item. This amount is unchanged from FY 2018.

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 2019 for the Folic Acid Program. This amount is unchanged from FY 2018.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth defects. In FY 2017, 29,580 women received folic acid education and multivitamins.

High Risk Perinatal Services

The budget includes \$2,543,400 in FY 2019 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 2018.

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.

Homeless Pregnant Women Services

The budget includes \$100,000 from the Health Services Lottery Monies Fund in FY 2019 for Homeless Pregnant Women Services. FY 2019 adjustments are as follows:

New Program

The budget includes \$100,000 from the Health Services Lottery Monies Fund in FY 2019 for a new Homeless Pregnant Women Services line item. The budget requires monies in this line item to be used to provide grants to non-profit organizations located in a county with more than 3 million persons and whose primary function is to provide shelter, food, clothing, and transportation services to homeless pregnant women and their children who are under the age of one.

The FY 2019 Health BRB, 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 Homeless Pregnant Women Services.

Newborn Screening Program

The budget includes \$7,227,400 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2019 for the Newborn Screening Program. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(14,700) from the Newborn Screening Program Fund in FY 2019 for statewide adjustments.

Background – This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders. In FY 2017, the program provided screening for 82,493 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.

Nursing Care Special Projects

The budget includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2019 for special projects related to long term care facilities. This amount is unchanged from FY 2018.

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 2019 for Poison Control Centers. This amount is unchanged from FY 2018.

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 2017.

A.R.S. § 32-1907 allows the Board of Pharmacy to transfer up to \$1,000,000 from the Arizona State Board of Pharmacy Fund to the University of Arizona Poison Control Information Center. However, this amount is not reflected in the table at the beginning of this narrative. The Board of Pharmacy transferred \$200,000 to the Poison Control Center in FY 2017.

Nonrenal Disease Management

The budget includes \$198,000 from the General Fund in FY 2019 for Nonrenal Disease Management. This amount is unchanged from FY 2018.

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 2019 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2018.

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 2019 for Renal Transplant Drugs. This amount is unchanged from FY 2018.

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 no funding from the Emergency Medical Services (EMS) Operating Fund in FY 2019 for a Public Health Emergencies Fund Deposit. FY 2019 adjustments are as follows:

Remove One-Time Deposit

The budget includes a decrease of \$(500,000) from the Emergency Medical Services (EMS) Operating Fund in FY 2019 for removal of a one-time deposit in the Public Health Emergencies Fund.

The Public Health Emergencies Fund was created by the FY 2018 Health BRB (Laws 2017, Chapter 309). 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 2019 for the State Loan Repayment Program. This amount is unchanged from FY 2018.

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.

Radiation Regulation

As required by Laws 2017, Chapter 313, the responsibilities of the Arizona Radiation Regulatory Agency (ARRA) transferred to 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 were transferred to DHS on the effective date. To simplify the display, the FY 2018 column of this budget does not reflect the transfer.

Radiation Regulation

The budget includes \$1,633,800 and 29 FTE Positions from the Health Services Licensing Fund in FY 2019 for Radiation Regulation. FY 2019 adjustments are as follows:

Agency Transfer

The budget includes an increase of \$1,644,300 and 29 FTE Positions in FY 2019 for the transfer of Radiation Regulatory Agency responsibilities and FY 2018 funding sources to DHS. These amounts consist of:

General Fund	787,600
Radiation Regulatory Fee Fund	582,900
State Radiologic Technologist Certification Fund	273,800

Fund Shift

The budget includes an increase of \$1,621,500 from the Health Services Licensing Fund in FY 2019 with a corresponding decrease of \$(773,400) from the General Fund, \$(576,500) from the Radiation Regulatory Fee Fund, and \$(271,600) from the State Radiologic Technologist Examiners Fund.

The FY 2019 Health BRB repealed the Radiation Regulatory Fee Fund and State Radiologic Technologist Certification Fund, and redirected all ARRA fee revenue to the Health Services Licensing Fund. The bill also requires

the first \$300,000 in fees collected for radiation regulation to be deposited to the General Fund. The remaining fees collected will be deposited 90% to the Health Services Licensing Fund and 10% to the General Fund.

Statewide Adjustments

The budget includes a decrease of \$(10,500) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(14,200)
Health Services Licensing Fund	12,300
Radiation Regulatory Fee Fund	(6,400)
State Radiologic Technologist Certification Fund	(2,200)

The FY 2019 Health BRB continues the fee raising authority and exemption related to establishing fees for radiation regulation in FY 2019. The bill continues an intent clause that limits additional revenues to \$561,000.

Radiation regulation includes oversight of the use, storage, and disposal of sources of radiation.

Nuclear Emergency Management Program

The budget includes \$789,663 and 5.5 FTE Positions from the Nuclear Emergency Management Fund (NEMF) in FY 2019 for the Nuclear Emergency Management Program line item. FY 2019 adjustments are as follows:

Agency Transfer

The budget includes an increase of \$789,663 and 5.5 FTE Positions from the NEMF in FY 2019 for the transfer of Radiation Regulatory Agency responsibilities to DHS.

Laws 2017, Chapter 43 appropriates \$789,663 and 5.5 FTE Positions from NEMF in FY 2018 and in FY 2019 to the Radiation Regulatory Agency. 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.

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 ^{2/}	5.5	789,663	5.5	789,663	5.5	789,663
Agriculture	<u>1.88</u>	<u>198,434</u>	<u>2.88</u>	<u>275,012</u>	<u>2.88</u>	<u>275,012</u>
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.

^{2/} Laws 2017, Chapter 313 transfers all responsibilities and unexpended or unencumbered monies of the Arizona Radiation Regulatory Agency to the Department of Health Services on January 1, 2018.

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 Emergency and Military Affairs and the Department of Agriculture narratives for more information.)

Other Issues

This section includes information on the following topics:

- FY 2018 Supplemental
- Fund Transfers
- Additional Legislation
- Arizona State Hospital Fund Deficit
- Medical Marijuana Fund Balance

FY 2018 Supplemental

Laws 2018, Chapter 215 appropriated \$900 from the General Fund in FY 2018 for a one-time supplemental named claimants appropriation.

Laws 2018, 1st Special Session, Chapter 1 appropriated \$400,600 from the Consumer Restitution and Remediation Revolving Fund - Consumer Remediation Subaccount in FY 2018 for an Opioid Abuse Prevention Campaign. (Please see the Operating Budget - Opioid Abuse Prevention Campaign policy issue.)

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Health Services Licensing Fund	\$1,500,000	\$1,000,000
ISA for Behavioral Health Services Fund	3,100,000	0

Additional Legislation

Community Health Worker Certification

Laws 2018, Chapter 300 requires DHS to issue voluntary certifications to community health workers who meet certain requirements and pay applicable fees.

Prescription Drug Education and Awareness Program

Laws 2018, Chapter 245 requires DHS to enter into a public-private partnership to develop an education and awareness program for the disposal of prescription drugs. The bill also creates the Drug Disposal Education and Awareness Fund within DHS to pay the costs of administering the program. The fund is non-appropriated and consists of donations.

Table 2

ASH Fund Revenues and Expenditures

	FY 2016	FY 2017	FY 2018 ^{1/}	FY 2019 ^{1/}
Beginning Balance	\$0.6	\$ 0.9	\$1.6	\$2.3
Revenue	6.9	4.8	5.0	2.0
Transfers ^{2/}	<u>2.4</u>	<u>5.0</u>	<u>2.5</u>	<u>0.0</u>
Total Available	\$9.9	\$10.7	\$9.1	\$4.3
Spending ^{3/ 4/}	<u>9.1</u>	<u>9.1</u>	<u>6.8</u>	<u>2.6</u>
Ending Balance	\$0.8	\$ 1.6	\$2.3	\$1.7

- ^{1/} FY 2018 and FY 2019 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 and \$1.2 million from the AHCCCS Non-Medicaid SMI line item in FY 2017, and \$1.3 million from the Health Services Lottery Monies Fund and \$1.2 million from the AHCCCS Non-Medicaid SMI line item 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/} The FY 2019 budget would transfer \$1.2 million from the AHCCCS Non-Medicaid SMI line item General Fund appropriation to the ASH - Operating line item. The ASH Fund appropriation had a corresponding decrease of \$(1.2) million. The FY 2019 budget also shifted 31% of the cost of daily care for SVP patients from counties to the state. The General Fund appropriation was increased by \$3.0 million, with a corresponding decrease from the ASH Fund of \$(3.0) million.

Arizona State Hospital Fund Deficit

Table 2 shows ASH Fund revenues and spending from FY 2016 to FY 2019. The fund receives payments from counties for the RTC program and, through FY 2018, 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. The JLBC Staff projects that ASH Fund disbursements will exceed ASH Fund revenues by \$0.6 million in FY 2019.

To address the projected FY 2017 shortfall, the FY 2017 budget included a footnote that requires AHCCCS to transfer \$1.2 million from the Non-Medicaid SMI line item to DHS in FY 2017 to help cover the prescription medication costs of ASH patients. The footnote formalized an earlier practice of transferring Non-Medicaid SMI monies to ASH when DHS was responsible for administering behavioral health services. 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 the 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, thereby reducing the ASH Fund expenditure level. The budget also transferred \$1.3 million from the

Health Services Lottery Monies Fund to the ASH Fund and again transferred \$1.2 million from the AHCCCS Non-Medicaid SMI line item in FY 2018.

The FY 2019 budget deletes the footnote requiring AHCCCS to transfer monies to DHS, and replaces this footnote with a direct \$1.2 million appropriation of funding to the ASH - Operating line item on an ongoing basis. The ASH Fund appropriation has a corresponding decrease of \$(1.2) million. The budget also eliminates the 31% county share of the cost of daily care for SVPs at ASH, increasing the General Fund appropriation by \$3.0 million in FY 2019. The ASH Fund has a corresponding decrease of \$(3.0) million. The overall level of resources available at ASH remains unchanged from FY 2018 to FY 2019.

Medical Marijuana Fund Balance

Proposition 203 passed in the 2010 General Election, creating the Medical Marijuana Program within DHS. In FY 2017, there were 133,368 cardholders and 3,930 dispensary agents in the DHS medical marijuana registry. To operate the program, DHS charges application fees to cardholders and dispensaries which are deposited to the Medical Marijuana Fund.

The Medical Marijuana Fund's balance has continued to grow since the program's inception in 2010 (see Table 3). The fund is projected to have ongoing revenues of \$25.0 million in FY 2018, compared to \$16.9 million in spending.

Along with surpluses from prior years, the fund is forecast to have a balance of \$41.3 million at the end of FY 2018.

Table 3			
Medical Marijuana Fund History			
	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Revenue	\$12,114,100	\$16,570,700	\$24,851,900
Spending	9,476,200	8,295,400	11,654,800
Ending Balance	11,614,400	19,874,100	33,244,000
Number of Cardholders	78,344	102,900	133,368
Number of Dispensary Agents	2,412	2,752	3,930

Arizona Historical Society

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	50.9	50.9	50.9 ^{1/}
Personal Services	1,172,900	1,205,500	1,235,500
Employee Related Expenditures	478,600	531,900	549,800
Professional and Outside Services	59,800	54,000	54,000
Other Operating Expenditures	402,900	779,600	750,000
OPERATING SUBTOTAL	2,114,200	2,571,000	2,589,300
SPECIAL LINE ITEMS			
Field Services and Grants	66,000	66,000	65,900
Papago Park Museum	542,900	542,800	539,800
AGENCY TOTAL	2,723,100	3,179,800	3,195,000 ^{2/}
FUND SOURCES			
General Fund	2,723,100	3,179,800	3,195,000
SUBTOTAL - Appropriated Funds	2,723,100	3,179,800	3,195,000
Other Non-Appropriated Funds	1,589,900	1,139,300	1,079,800
TOTAL - ALL SOURCES	4,313,000	4,319,100	4,274,800

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 \$2,589,300 and 40.4 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Grant Specialist

The budget includes an increase of \$30,000 from the General Fund in FY 2019 to fund a part-time Grant Specialist position. The new position would pursue grants and other funding opportunities.

Statewide Adjustments

The budget includes a decrease of \$(11,700) from the General Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocation section.)*

Field Services and Grants

The budget includes \$65,900 and 0.4 FTE Positions from the General Fund in FY 2019 for Field Services and Grants. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(100) from the General Fund in FY 2019 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 \$539,800 and 10.1 FTE Positions from the General Fund in FY 2019 for the Papago Park Museum. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(3,000) from the General Fund in FY 2019 for statewide adjustments.

This line item funds the operation and maintenance of the Papago Park Museum (Tempe).

^{1/} Includes 10.5 GF FTE Positions funded from Special Line Items in FY 2019.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Other Issues

Museum Attendance

Table 1

FY 2017 Museum Attendance

<u>Facility</u>	<u>Visitors</u>
Arizona History (Tucson)	11,261
Downtown History (Tucson)	2,995
Fort Lowell (Tucson)	5,024
Sosa Carrillo Fremont (Tucson)	366
Sanguinetti House (Yuma)	2,043
Museum at Papago Park (Tempe)	4,172
Pioneer Museum (Flagstaff)	11,345
Riordan Mansion (Flagstaff)	<u>21,862</u>
Total	59,068

Prescott Historical Society of Arizona

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	513,800	521,800	521,800
Employee Related Expenditures	235,300	254,700	262,900
Other Operating Expenditures	75,400	63,700	48,000
AGENCY TOTAL	824,500	840,200	832,700^{1/}
FUND SOURCES			
General Fund	824,500	840,200	832,700
SUBTOTAL - Appropriated Funds	824,500	840,200	832,700
Other Non-Appropriated Funds	593,600	1,115,000	2,860,000
TOTAL - ALL SOURCES	1,418,100	1,955,200	3,692,700

AGENCY DESCRIPTION — The Prescott Historical Society preserves and maintains the Old Governor's Mansion, together with the other buildings and properties of the Sharlot Hall Museum located in Prescott. The Society is responsible for acquiring, preserving, and publicly exhibiting archival and museum objects pertaining to the history, geological, and anthropological life of Arizona and the West.

Operating Budget

The budget includes \$832,700 and 13 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(7,500) from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocation section.)

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

Arizona Department of Homeland Security

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 ESTIMATE
FUND SOURCES			
Federal Funds	22,430,300	20,188,200	20,188,200
TOTAL - ALL SOURCES	22,430,300	20,188,200	20,188,200

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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	36,600	36,600	36,600
Employee Related Expenditures	19,400	19,400	18,500
Professional and Outside Services	200	200	200
Travel - In State	1,300	1,300	1,300
Other Operating Expenditures	8,000	31,500	34,100
AGENCY TOTAL	65,500	89,000	90,700 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	65,500	89,000	90,700
SUBTOTAL - Other Appropriated Funds	65,500	89,000	90,700
SUBTOTAL - Appropriated Funds	65,500	89,000	90,700
TOTAL - ALL SOURCES	65,500	89,000	90,700

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 Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$90,700 and 1 FTE Position from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$1,000 from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$700 from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$2,100 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Department of Housing

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	20.0	20.0	3.0
Personal Services	631,900	294,100	192,800
Employee Related Expenditures	268,200	115,600	73,200
Professional and Outside Services	28,300	6,800	0
Travel - In State	59,500	3,300	3,300
Other Operating Expenditures	133,800	731,600	51,600
Equipment	8,200	1,800	1,300
AGENCY TOTAL	1,129,900	1,153,200	322,200 ^{1/}
FUND SOURCES			
General Fund	811,400	830,000	0
<u>Other Appropriated Funds</u>			
Housing Trust Fund	318,500	323,200	322,200
SUBTOTAL - Other Appropriated Funds	318,500	323,200	322,200
SUBTOTAL - Appropriated Funds	1,129,900	1,153,200	322,200
Other Non-Appropriated Funds	29,099,800	25,842,100	25,380,000
Federal Funds	78,704,400	82,989,900	88,432,900
TOTAL - ALL SOURCES	108,934,100	109,985,200	114,135,100

AGENCY DESCRIPTION — Through a variety of housing and community improvement programs, the department annually administers approximately \$108 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. The department's responsibilities include the Office of Manufactured Housing.

Operating Budget

The budget includes \$322,200 and 3 FTE Positions from the Housing Trust Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove General Fund Appropriation

The budget includes a decrease of \$(811,400) and (17) FTE Positions from the General Fund in FY 2019. Laws 2017, Chapter 335 repealed A.R.S. § 41-4024, which previously required the department to deposit revenue from fees into the General Fund. In the absence of A.R.S. § 41-4024, A.R.S. § 41-3953 allows the department to deposit those fees instead into the non-appropriated Arizona Department of Housing Program Fund.

The fees mentioned above will be used to fund the Office of Manufactured Housing, which was transferred to the Arizona Department of Housing in FY 2017. The office maintains standards for the safety and quality of all

manufactured homes, factory built buildings and accessory structures.

Statewide Adjustments

The budget includes a decrease of \$(19,600) in FY 2019 for statewide adjustments. This amount consists of:

	FY 2019
General Fund	\$(18,600)
Housing Trust Fund	(1,000)

(Please see the Agency Detail and Allocations section.)

Other Issues

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

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

	<u>FY 2018</u>	<u>FY 2019</u>
Arizona Department of Housing	\$0	\$2,000,000
Program Fund		
Housing Trust Fund	0	400,000

Independent Redistricting Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	969,900	0	0
AGENCY TOTAL	969,900	0	0
FUND SOURCES			
General Fund	969,900	0	0
SUBTOTAL - Appropriated Funds	969,900	0	0
TOTAL - ALL SOURCES	969,900	0	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 2019 for the operating budget. This amount is unchanged from FY 2018.

The FY 2018 budget eliminated funding for the commission, whose final outstanding case for the 2010 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. ADOA is required to recommend funding for the next commission in CY 2018 or CY 2019.

Please see the FY 2018 Appropriations Report for more information on the history of the 2010 redistricting cycle.

Industrial Commission of Arizona

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	235.6	235.6	235.6
Personal Services	9,044,300	10,052,100	10,052,100
Employee Related Expenditures	3,521,200	4,061,500	3,943,900
Professional and Outside Services	1,773,200	1,821,900	1,821,900
Travel - In State	170,800	150,500	150,500
Travel - Out of State	30,600	46,200	46,200
Other Operating Expenditures	3,287,000	3,968,400	3,976,900
Equipment	582,400	10,300	10,300
AGENCY TOTAL	18,409,500	20,110,900	20,001,800 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Administrative Fund	18,409,500	20,110,900	20,001,800
SUBTOTAL - Other Appropriated Funds	18,409,500	20,110,900	20,001,800
SUBTOTAL - Appropriated Funds	18,409,500	20,110,900	20,001,800
Other Non-Appropriated Funds	15,533,800	17,848,900	17,848,900
Federal Funds	2,877,400	3,179,900	3,179,900
TOTAL - ALL SOURCES	36,820,700	41,139,700	41,030,600

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 \$20,001,800 and 235.6 FTE Positions from the Administrative Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Named Claimants

The budget includes a decrease of \$(440) from the Administrative Fund in FY 2019 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 a decrease of \$(108,600) from the Administrative Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation of \$440 from the Administrative Fund for a one-time supplemental named claimants appropriation.

Fund Transfers

The budget includes the following transfer from this agency's funds to the General Fund:

	FY 2018	FY 2019
Administrative Fund	\$0	\$7,000,000

^{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 used 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.

The Industrial Commission made no expenditures from the appropriation in FY 2017, and does not expect to expend any funds in FY 2018 or 2019. The outside legal services are no longer being used to administer the board's activities. Instead, these administrative functions are being handled internally by the Industrial Commission, with expenses being paid out of the Administrative Fund. The FY 2019 General Appropriation Act reverts any remaining monies from the FY 2012 appropriation to the General Fund at the end of FY 2018.

Department of Insurance

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	72.3	72.3	72.3
Personal Services	2,879,300	3,305,300	3,171,800
Employee Related Expenditures	1,131,600	1,520,500	1,438,200
Professional and Outside Services	300,600	312,000	312,000
Travel - In State	18,300	25,600	25,600
Travel - Out of State	10,000	1,100	1,100
Other Operating Expenditures	697,000	707,400	673,300
Equipment	36,200	6,400	6,400
AGENCY TOTAL	5,073,000	5,878,300	5,628,400 ^{1/}
FUND SOURCES			
General Fund	5,073,000	5,878,300	5,628,400
SUBTOTAL - Appropriated Funds	5,073,000	5,878,300	5,628,400
Other Non-Appropriated Funds	20,302,600	32,271,400	32,403,200
Federal Funds	208,600	223,300	92,400
TOTAL - ALL SOURCES	25,584,200	38,373,000	38,124,000

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 \$5,628,400 and 72.3 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Efficiency Savings

The budget includes a decrease of \$(189,500) from the General Fund in FY 2019 for efficiency savings identified by the department.

Statewide Adjustments

The budget includes a decrease of \$(60,400) from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Statutory Fee Revenue Requirement Suspension

The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283) continues to suspend the

statutory requirement that fee revenues be between 95% and 110% of the department's appropriation for FY 2019.

Out-of-Network Arbitration Process Funding

The FY 2019 Budget Procedures BRB (Laws 2018, Chapter 279) allows the department to use the Assessment Fund for Voluntary Plans in FY 2019 and FY 2020 to pay for the cost of administering the out-of-network claim dispute resolution process created by Laws 2017, Chapter 190.

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

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

maximum payout amount, determined by statute based on the type of insurance. The last assessment levied for 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. The department and the board plan to levy an assessment over multiple years. In November the board levied a \$7.0 million assessment for FY 2018, and the board estimates assessment revenue will be \$8.0 million in FY 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	177.0	183.0	183.0 ^{1/}
Personal Services	6,344,100	6,859,000	6,867,000
Employee Related Expenditures	2,182,500	2,476,400	2,781,200
Professional and Outside Services	338,600	332,700	332,700
Travel - In State	253,900	149,300	149,300
Travel - Out of State	45,900	36,800	36,800
Other Operating Expenditures	3,036,300	4,136,000	4,817,100
Equipment	68,800	0	0
OPERATING SUBTOTAL	12,270,100	13,990,200	14,984,100 ^{2/}
SPECIAL LINE ITEMS			
State Aid	4,167,700	5,671,400	5,661,200
County Reimbursements	187,900	187,900	187,900 ^{3/}
Automation	15,648,300	20,063,600	20,046,600 ^{4/5/}
WAAS Upgrade	948,700	0	0
State Foster Care Review Board	3,177,500	3,205,000	3,176,300
Court Appointed Special Advocate	2,799,700	3,267,800	3,517,400
Model Court	437,300	439,500	438,500
Domestic Relations	610,800	625,600	619,400
Judicial Nominations and Performance Review	408,600	416,300	412,600
Commission on Judicial Conduct	495,500	508,500	503,000
Courthouse Security	0	750,000	750,000
Felony Pretrial Intervention Program	250,000	0	0
Peace Officer Training Fee Programming Cost	0	0	20,000 ^{6/}
AGENCY TOTAL	41,402,100	49,125,800	50,317,000 ^{7/}
FUND SOURCES			
General Fund	19,136,700	18,812,000	19,870,100
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	219,000	493,600	491,300
Court Appointed Special Advocate Fund	2,876,700	3,348,500	3,597,700
Criminal Justice Enhancement Fund	3,332,500	4,399,600	4,384,500
Defensive Driving School Fund	3,046,600	4,205,900	4,208,200
Health Services Lottery Fund	250,000	0	0
Judicial Collection Enhancement Fund	10,408,400	14,784,100	14,800,000
Legislative, Executive, and Judicial Public Buildings Land Fund	0	137,000	0
Peace Officer Training Equipment Fund	0	0	20,000
State Aid to the Courts Fund	2,132,200	2,945,100	2,945,200
SUBTOTAL - Other Appropriated Funds	22,265,400	30,313,800	30,446,900
SUBTOTAL - Appropriated Funds	41,402,100	49,125,800	50,317,000
Other Non-Appropriated Funds	19,248,300	23,283,100	23,283,100
TOTAL - ALL SOURCES	60,650,400	72,408,900	73,600,100

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.

Operating Budget

The budget includes \$14,984,100 and 108.7 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$11,148,200
Confidential Intermediary and Fiduciary Fund	491,300
Criminal Justice Enhancement Fund (CJEF)	7,000
Defensive Driving School Fund	708,500
Judicial Collection Enhancement Fund (JCEF)	2,629,100

FY 2019 adjustments are as follows:

Judicial Salary Increase

The budget includes an increase of \$10,300 from the General Fund in FY 2019 to annualize the phase-in of a 3% judicial pay increase. The FY 2017 budget included funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase was January 1, 2017. The FY 2018 budget included 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 became effective January 1, 2018.

Risk Management Fund Shift

The budget includes an increase of \$137,000 from the General Fund and a corresponding decrease of \$(137,000) from the Legislative, Executive, and Judicial Public Buildings Land Fund in FY 2019 for a Risk Management Fund shift.

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 General Fund reduction to the Supreme Court's operating budget. The General Appropriation Act also stated it was the intent of the Legislature to find a different funding source in FY 2019. The budget shifts this funding from the Legislative, Executive, and Judicial Public

Buildings Land Fund to the General Fund. *(Please see the Risk Management Reduction section in Other Issues for more information.)*

Statewide Adjustments

The budget includes an increase of \$983,600 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	983,200
Confidential Intermediary and Fiduciary Fund	(2,300)
Defensive Driving School Fund	500
Judicial Collection Enhancement Fund	2,200

(Please see the Agency Detail and Allocations section.)

State Aid

The budget includes \$5,661,200 and 3.3 FTE Positions in FY 2019 for State Aid. These amounts consist of:

CJEF	2,716,000
State Aid to the Courts Fund	2,945,200

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(10,200) in FY 2019 for statewide adjustments. This amount consists of:

CJEF	(10,300)
State Aid to the Courts Fund	100

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.

- 1/ Includes 52.5 GF and 21.8 OF FTE Positions funded from Special Line Items in FY 2019.
- 2/ Included in the operating lump sum appropriation for the Supreme Court is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote)
- 3/ 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, 2018, the Supreme Court shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting 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 2018, Chapter 312 appropriated \$20,000 from the Peace Officer Training Equipment Fund for one-time programming costs.
- 7/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

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 2019 for County Reimbursements. This amount is unchanged from FY 2018.

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 \$20,046,600 and 13 FTE Positions in FY 2019 for Automation. These amounts consist of:

General Fund	3,384,200
Court Appointed Special Advocate (CASA) Fund	80,300
CJEF	1,661,500
Defensive Driving School Fund	3,499,700
JCEF	11,420,900

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(17,000) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(27,300)
Court Appointed Special Advocate (CASA) Fund	(400)
CJEF	(4,800)
Defensive Driving School Fund	1,800
JCEF	13,700

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.

State Foster Care Review Board

The budget includes \$3,176,300 and 40 FTE Positions from the General Fund in FY 2019 for the State Foster Care Review Board. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(28,700) from the General Fund in FY 2019 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 \$3,517,400 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2019 for CASA. FY 2019 adjustments are as follows:

CASA Fund Expenditure Authority Increase

The budget includes an increase of \$250,000 from the CASA Fund in FY 2019 to expand program services.

Statewide Adjustments

The budget includes a decrease of \$(400) from the CASA Fund in FY 2019 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 \$438,500 from the General Fund in FY 2019 for Model Court. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,000) from the General Fund in FY 2019 for statewide adjustments.

Monies in this line item represent a pass-through to counties to improve processing of dependency cases. The Superior Court budget included 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 \$619,400 and 4.9 FTE Positions from the General Fund in FY 2019 for Domestic Relations. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(6,200) from the General Fund in FY 2019 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 \$412,600 and 3.6 FTE Positions from the General Fund in FY 2019 for Judicial Nominations and Performance Review. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(3,700) from the General Fund in FY 2019 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 \$503,000 and 4 FTE Positions from the General Fund in FY 2019 for Commission on Judicial Conduct. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(5,500) from the General Fund in FY 2019 for statewide adjustments.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

Courthouse Security

The budget includes \$750,000 from JCEF in FY 2019 for Courthouse Security. This amount is unchanged from FY 2018.

The FY 2018 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 303) appropriated \$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 2019 budget continued this funding in a special line item.

The FY 2018 Criminal Justice BRB modified 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 all Superior Court and Justice of the Peace fees by 2%. If this were to occur, all other recipients of Superior Court and Justice of the Peace fee revenues would be held harmless.

Peace Officer Training Fee Equipment Programming Cost

Laws 2018, Chapter 312 appropriates \$20,000 from the Peace Officer Training Equipment Fund in FY 2019 for one-time programming costs associated with assessing the new Peace Officer Training Equipment fees. *(Please see the Peace Officer Training Equipment line item in the Department of Public Safety for more information.)*

Other Issues

Fund Transfers

The budget includes no transfers from this agency's funds to the General Fund. The FY 2018 budget's 3-year spending plan included ongoing transfers of \$2.6 million from the courts. In FY 2018, the Supreme Court's share of this amount was \$500,000 and the Superior Court's share was \$2,100,000. The FY 2019 budget reduced this transfer amount to \$2,000,000 and made it one-time. *(Please see the Superior Court for more information on FY 2019 transfers.)*

Additional Legislation

Case Management System

The FY 2019 Criminal Justice BRB (Laws 2018, Chapter 278) allows the Supreme Court to use up to \$3,150,000 through FY 2020 from the Juvenile Probation Services Fund, Alternative Dispute Resolution Fund, Drug Treatment and Education Fund, and the Arizona Lengthy Trial Fund for a new Appellate Case Management System. When completed, the new system will serve the Supreme Court and Division I of the Court of Appeals.

EORP Employer Increase

The State of Arizona - as well as participating counties, cities and towns - pay into the Elected Officials Retirement Plan (EORP). The current employer contribution level is fixed by statute and is set at 23.5% of salary. A recent Maricopa County Superior Court opinion has ruled this fixed contribution rate unconstitutional, as it does not provide adequate funding for the actuarially required contributions to the EORP Plan. Laws 2018, Chapter 343 requires the employer contribution rate to be revised annually to the actuarially-required level, which is 61.5% in FY 2019.

Additionally, Laws 2018, Chapter 317 increases Superior Court and Justice of the Peace Court base fees and reallocates the revenue distributions to include a new 6% allocation to the EORP Fund, while holding other recipients harmless. The fee adjustments are estimated to increase revenue to the fund by about \$2.3 million, which will partially offset the EORP employer rate increase for all employers, not only the state. *(Please see the Consolidated Retirement Report for more information.)*

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 \$(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). *(Please see Risk Management Fund Shift in the Operating Budget for more information.)*

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.

Judiciary - Court of Appeals

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
PROGRAM BUDGET			
Division I	9,876,400	10,258,000	11,099,600
Division II	4,331,500	4,465,000	4,892,800
AGENCY TOTAL	14,207,900	14,723,000	15,992,400
OPERATING BUDGET			
Full Time Equivalent Positions	136.8	136.8	136.8 ^{1/}
Personal Services	9,487,000	10,155,000	10,178,000
Employee Related Expenditures	3,157,800	3,600,800	4,750,300
Professional and Outside Services	85,900	21,200	21,200
Travel - In State	186,100	212,000	212,000
Travel - Out of State	17,400	10,000	10,000
Other Operating Expenditures	1,163,000	724,000	820,900
Equipment	110,700	0	0
AGENCY TOTAL	14,207,900	14,723,000	15,992,400 ^{2/}
FUND SOURCES			
General Fund	14,207,900	14,723,000	15,992,400
SUBTOTAL - Appropriated Funds	14,207,900	14,723,000	15,992,400
TOTAL - ALL SOURCES	14,207,900	14,723,000	15,992,400

AGENCY DESCRIPTION — The Court of Appeals has jurisdiction in all proceedings appealable from the Superior Court except criminal death penalty cases, which are automatically appealed to the Supreme Court. Division I also has statewide responsibility for reviewing appeals from the Arizona Corporation Commission, Industrial Commission, the Department of Economic Security unemployment compensation rulings, and the Arizona Tax Court. Division I convenes in Phoenix and encompasses the counties of Apache, Coconino, La Paz, Maricopa, Mohave, Navajo, Yavapai, and Yuma. Division II convenes in Tucson and encompasses the counties of Cochise, Gila, Graham, Greenlee, Pima, Pinal, and Santa Cruz.

Operating Budget

The budget includes \$15,992,400 and 136.8 FTE Positions from the General Fund in FY 2019 for the operating budget. These amounts include \$11,099,600 and 98.3 FTE Positions for Division I and \$4,892,800 and 38.5 FTE Positions for Division II. FY 2019 adjustments are as follows:

Judicial Salary Increase

The budget includes an increase of \$31,100 from the General Fund in FY 2019 to annualize the phase-in of a 3% judicial pay increase. The FY 2017 budget included funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase was January 1, 2017. The FY 2018 budget included 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 became effective January 1, 2018. The FY 2019 increase is split with Division I receiving \$21,800 and Division II receiving \$9,300.

Statewide Adjustments

The budget includes an increase of \$1,238,300 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Case Management System

The FY 2019 Criminal Justice Budget Reconciliation Bill (Laws 2018, Chapter 278) allows the Supreme Court to use up to \$3,150,000 through FY 2020 from the Juvenile

^{1/} Of the 136.8 FTE Positions for FY 2019, 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.

Probation Services Fund, Alternative Dispute Resolution Fund, Drug Treatment and Education Fund, and the Arizona Lengthy Trial Fund for a new Appellate Case Management System. When completed, the new system will serve the Supreme Court and Division I of the Court of Appeals.

Judiciary - Superior Court

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5 ^{1/}
Personal Services	2,368,200	2,363,400	2,363,400
Employee Related Expenditures	846,200	887,600	899,100
Professional and Outside Services	58,100	95,600	95,600
Travel - In State	48,100	19,700	19,700
Travel - Out of State	6,100	9,500	9,500
Other Operating Expenditures	678,400	818,000	820,400
Equipment	163,900	0	0
OPERATING SUBTOTAL	4,169,000	4,193,800	4,207,700 ^{2/}
SPECIAL LINE ITEMS			
Centralized Service Payments	2,904,300	3,458,000	3,465,000 ^{3/}
Judges Compensation	8,071,800	8,367,300	10,624,100 ^{4/}
Adult Standard Probation	17,063,400	17,666,600	18,445,200 ^{5/}
Adult Intensive Probation	10,205,000	10,565,100	10,981,200 ^{5/}
Community Punishment	1,316,300	2,310,300	2,310,300
Interstate Compact	427,500	427,500	444,500 ^{5/}
Drug Court	993,600	993,600	1,006,700
Drug Treatment Alternative to Prison	0	250,000	0
Juvenile Standard Probation	3,373,200	3,610,400	3,450,400 ^{5/}
Juvenile Intensive Probation	5,285,000	5,352,000	5,301,000 ^{5/}
Juvenile Treatment Services	19,960,900	19,960,900	19,960,900 ^{5/}
Juvenile Family Counseling	500,000	500,000	500,000
Juvenile Diversion Consequences	8,157,800	8,157,800	8,157,800 ^{5/}
Juvenile Crime Reduction	598,200	3,308,000	3,311,500
Dependency Surge	1,229,600	0	0
Special Water Master	144,400	190,700	191,300
Court-Ordered Removals	0	75,000	315,000
AGENCY TOTAL	84,400,000	89,387,000	92,672,600 ^{7/ 8/ 9/ 10/}
FUND SOURCES			
General Fund	77,407,400	77,183,700	80,714,500
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	1,705,600	5,435,200	5,440,000
Drug Treatment and Education Fund	502,400	502,900	502,900
Health Services Lottery Monies Fund	0	250,000	0
Judicial Collection Enhancement Fund	4,784,600	6,015,200	6,015,200
SUBTOTAL - Other Appropriated Funds	6,992,600	12,203,300	11,958,100
SUBTOTAL - Appropriated Funds	84,400,000	89,387,000	92,672,600
Other Non-Appropriated Funds	4,008,800	4,143,000	4,143,000
Federal Funds	1,049,900	1,058,200	1,058,200
TOTAL - ALL SOURCES	89,458,700	94,588,200	97,873,800

^{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)

AGENCY DESCRIPTION — The Superior Court, which has a division in every county, is the state’s only general jurisdiction court. Superior Court judges hear all types of cases except small claims, minor offenses, or violations of city codes and ordinances. In addition, the responsibility for supervising adults and juveniles who have been placed on probation resides in the Superior Court.

Operating Budget

General Fund 12,600
Criminal Justice Enhancement Fund 1,300

The budget includes \$4,207,700 and 55.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

(Please see the Agency Detail and Allocations section.)

	<u>FY 2019</u>
General Fund	\$3,873,400
Criminal Justice Enhancement Fund (CJEF)	318,400
Drug Treatment and Education Fund	2,700
Judicial Collection Enhancement Fund (JCEF)	13,200

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.

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$13,900 in FY 2019 for statewide adjustments. This amount consists of:

- 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 2,000,000 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/ 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)
- 7/ 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)
- 8/ On or before November 1, 2018, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee and the Governor’s Office of Strategic Planning and Budgeting the FY 2018 actual, FY 2019 estimated and FY 2020 requested amounts for each of the following:
 - 1. On a county-by-county basis, the number of authorized and filled case carrying probation positions and non-case carrying probation positions, distinguishing between Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive. The report shall indicate the level of state probation funding, other state funding, county funding and probation surcharge funding for those positions.
 - 2. Total receipts and expenditures by county and fund source for the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items, including the amount of Personal Services spent 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)
- 9/ On or before February 1, 2019, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee and the Governor’s Office of Strategic Planning and Budgeting the county-approved salary adjustments provided to probation officers since the last report on February 1, 2018. 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)
- 10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Centralized Service Payments

The budget includes \$3,465,000 in FY 2019 for centralized service payments. This amount consists of:

General Fund	3,015,100
JCEF	449,900

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$7,000 from the General Fund in FY 2019 for statewide adjustments.

Background – In order to facilitate payment for services that are offered by all Superior Courts, AOC pays for various services centrally. These services include training, motor vehicle payments, Corrections Officer Retirement Plan Review Board funding, Literacy Education and Resource Network program funding (an online G.E.D. preparation program), research, operational reviews and GPS vendor payments.

Judges' Compensation

The budget includes \$10,624,100 and 82 FTE Positions from the General Fund in FY 2019 for Judges' Compensation. FY 2019 adjustments are as follows:

Judicial Salary Increase

The budget includes an increase of \$56,200 from the General Fund in FY 2019 to annualize the phase-in of a 3% judicial pay increase. The FY 2017 budget included funding for the first half-year of the salary increases' implementation as the effective date of the first 1.5% increase was January 1, 2017. The FY 2018 budget included 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 became effective January 1, 2018.

Statewide Adjustments

The budget includes an increase of \$2,200,600 from the General Fund in FY 2019 for statewide adjustments. Of this amount, \$2,193,900 funds the cost of increasing the Elected Officials Retirement Plan (EORP) employer contribution rate from 23.5% to 61.5% in FY 2019.

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 currently requires the state General Fund to pay for one-half of Superior Court Judges' salaries, except for Maricopa County judges. Maricopa County is currently responsible for 100% of the salary and benefits of its Superior Court Judges. As permanent law, the FY 2019 Criminal Justice Budget Reconciliation Bill (Laws 2018, Chapter 278) amends A.R.S § 12-128 to phase in state funding for Maricopa County judges at 25% in FY 2020 and 50% in FY 2021. The cost to pay for the state's share of costs will total \$6,540,500 in FY 2020 and \$13,081,100 in FY 2021.

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. The state pays 100% of salary and benefits for all state-funded probation officers. 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 \$18,445,200 in FY 2019 for Adult Standard Probation. This amount consists of:

General Fund	14,671,100
JCEF	3,774,100

FY 2019 adjustments are as follows:

New Probation Officers

The budget includes an increase of \$413,000 from the General Fund in FY 2019 for 10 new probation officers to address expected caseload growth. AOC will determine where these probation officers are located based on need. This amount annualizes to \$550,500 in FY 2020. *(Please see Long-Term Budget Impacts in the Other Issues section for more information.)*

Probation Officer Salary Shortfall - State Share

The budget includes an increase of \$365,600 from the General Fund in FY 2019 for the state share of current probation officers' salaries. *(Please see Probation Salary*

Fund Shift in the Other Issues section for more information.)

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 \$10,981,200 in FY 2019 for Adult Intensive Probation. This amount consists of:

General Fund	9,446,000
JCEF	1,535,200

FY 2019 adjustments are as follows:

Probation Officer Salary Shortfall - State Share

The budget includes an increase of \$416,100 from the General Fund in FY 2019 for salary deficits of current probation officers. *(Please see Probation Salary Fund Shift in the Other Issues section for more information.)*

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 2019 for Community Punishment. This amount consists of:

CJEF	1,810,100
Drug Treatment and Education Fund	500,200

These amounts are unchanged from FY 2018.

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 \$444,500 in FY 2019 for Interstate Compact. This amount consists of:

General Fund	351,700
JCEF	92,800

FY 2019 adjustments are as follows:

Probation Officer Salary Shortfall - State Share

The budget includes an increase of \$17,000 from the General Fund in FY 2019 for salary deficits of current probation officers. *(Please see Probation Salary Fund Shift in the Other Issues section for more information.)*

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 \$1,006,700 from the General Fund in FY 2019 for Drug Court programs. FY 2019 adjustments are as follows:

Probation Officer Salary Shortfall - State Share

The budget includes an increase of \$13,100 from the General Fund in FY 2019 for salary deficits of current probation officers. *(Please see Probation Salary Fund Shift in the Other Issues section for more information.)*

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 no funding in FY 2019 for the Pima County Drug Treatment Alternative to Prison Program. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the Health Services Lottery Monies Fund in FY 2019 for the elimination of one-time funding 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. The FY 2018 appropriation is non-lapsing through June 30, 2019.

Juvenile Standard Probation

The budget includes \$3,450,400 in FY 2019 for Juvenile Standard Probation. This amount consists of:

General Fund	3,300,400
JCEF	150,000

FY 2019 adjustments are as follows:

Probation Officer Salary Shortfall - State Share

The budget includes a decrease of \$(160,000) from the General Fund in FY 2019. This amount was shifted to other probation categories to pay for salary deficits of current probation officers. *(Please see Probation Salary Fund Shift in the Other Issues section for more information.)*

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 \$5,301,000 from the General Fund in FY 2019 for Juvenile Intensive Probation. FY 2019 adjustments are as follows:

Probation Officer Salary Shortfall - State Share

The budget includes a decrease of \$(51,000) from the General Fund in FY 2019. This amount was shifted to other probation categories to pay for salary deficits of current probation officers. *(Please see Probation Salary Fund Shift in the Other Issues section for more information.)*

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 2019 for Juvenile Treatment Services. This amount is unchanged from FY 2018.

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.

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 2019 for Juvenile Family Counseling. This amount is unchanged from FY 2018.

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 2019 for Juvenile Diversion Consequences. This amount is unchanged from FY 2018.

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. According to the AOC’s Juvenile Court Annual Report, there were approximately 9,962 juveniles diverted from formal court proceedings in FY 2017. 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 \$3,311,500 from CJEF in FY 2019 for Juvenile Crime Reduction. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$3,500 from CJEF in FY 2019 for statewide adjustments.

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.

Special Water Master

The budget includes \$191,300 from the General Fund in FY 2019 for the Special Water Master line item. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$600 from the General Fund in FY 2019 for statewide adjustments.

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 2017, 441 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 Table 1 for more information.)*

Table 1

Special Water Master Funding

	FY 2017 Actual	FY 2018 Estimated ^{1/}	FY 2019 Estimated ^{1/}
Gila River			
Beginning Balance	\$181,500	\$214,800	\$276,000
Revenues ^{2/}	155,800	183,700	183,700
Expenditures	<u>122,500</u>	<u>122,500</u>	<u>122,500</u>
Ending Balance	\$214,800	\$276,000	\$337,200
Little Colorado River			
Beginning Balance	\$90,900	\$86,400	\$84,600
Revenues ^{2/}	17,400	20,100	20,200
Expenditures	<u>21,900</u>	<u>21,900</u>	<u>21,900</u>
Ending Balance	\$86,400	\$84,600	\$82,900

^{1/} As reported by the Administrative Office of the Courts.

^{2/} Includes annual General Fund appropriation plus interest.

Court-Ordered Removals

The budget includes \$315,000 from the General Fund in FY 2019 for Court-Ordered Removals. FY 2019 adjustments are as follows:

Annualize Court-Ordered Removal Funding

The budget includes an increase of \$240,000 from the General Fund in FY 2019 to annualize funding 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. The FY 2018 budget's 3-year spending plan included this ongoing funding starting in FY 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, Superior Court General Fund costs are projected to increase by \$137,500 in FY 2020 above FY 2019. This increase is based on the appropriation for 10 new Adult Standard probation annualizing to \$550,500.

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2018	FY 2019
Drug Treatment and Education Fund	\$0	\$2,000,000

The FY 2018 budget included \$2,600,000 of transfers from Superior Court and Supreme Court funds in FY 2018 and listed them as ongoing. The FY 2019 budget includes only \$2,000,000 from DTEF in FY 2019 in transfers from the Superior Court and makes them one-time transfers.

Probation Salary Fund Shift

The budget includes a combined increase of \$600,800 from the General Fund in FY 2019 to pay for the state's share of probation salary shortfalls. In addition to the increase, the budget shifts some funds between probation categories. *Table 2* below details the changes to each line item in FY 2019.

Table 2

FY 2019 Probation Salary Fund Shifts

<u>Line Item</u>	<u>Increase/(Decrease)</u>
Adult Standard	\$365,600
Adult Intensive	416,100
Interstate Compact	17,000
Drug Court	13,100
Juvenile Standard	(160,000)
Juvenile Intensive	(51,000)
Total	\$600,800

Probation Caseloads

The budget includes \$33,070,200 in General Fund and \$5,552,100 in Other Fund monies in FY 2019 to support non-Maricopa County adult and juvenile probation caseloads. These amounts also include the funding for Interstate Compact.

In FY 2017, the state appropriated \$31,569,500 in General Fund and \$5,552,100 in Other Fund monies for a total of \$37,121,600 in state resources to support non-Maricopa County adult and juvenile probation caseloads. Actual probation expenditures totaled \$36,354,100 in FY 2017. Additionally, counties provided \$26,949,600 in funding and \$5,939,100 in probation fee revenues for these purposes. *Table 3* below displays total funding and probation officer expenditures from both county and state sources in FY 2017.

In FY 2017, the June non-Maricopa County probation caseload was 19,139. This represents a year-over-year increase of 2.5%. Although aggregate caseloads increased last year, only the Adult Standard category has seen multi-year increases while all other categories continued their downward trends. *Table 4* shows the caseloads for FY 2015 - FY 2019 by probation category. The FY 2018 and FY 2019 figures represent estimated caseloads derived from the utilization of a multi-year trend line using 5 years of data. The estimated aggregate growth rate for FY 2019 is 2.0% for all probation categories due to estimated decreases in all but the Adult Standard category which is anticipated to increase by 3.3% in FY 2019. According to AOC, current funding provides for a maximum caseload capacity in the Adult Standard program of 16,835. The FY

2019 budget adds funding for 10 additional probation officers, increasing the capacity to 17,485, sufficient to fund the anticipated Adult Standard caseload growth.

Table 3

FY 2017 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	237.5	99.5	45.8	39.7	422.5
Non-Case Carrying Positions	<u>344.4</u>	<u>59.1</u>	<u>350.1</u>	<u>33.1</u>	<u>786.7</u>
Total Filled Positions	581.9	158.6	395.9	72.8	1,209.2
Probation Line Item Expenditures					
Amount Distributed to Counties	<u>\$17,490,900</u>	<u>\$10,205,000</u>	<u>\$3,373,200</u>	<u>\$5,285,000</u>	<u>\$36,354,100</u>
Total Line Item Expenditures	\$17,490,900^{1/}	\$10,205,000	\$3,373,200	\$5,285,000	\$36,354,100^{2/}
County Probation Expenditures					
State General Fund	\$13,580,300 ^{3/}	\$9,175,600	\$3,174,400	\$4,725,800	\$30,656,100
Other State Funds	3,448,600	943,000	0	0	4,391,600
County Funding	15,068,600	0	11,881,000	0	26,949,600
Probation Fees	<u>5,533,200</u>	<u>0</u>	<u>405,900</u>	<u>0</u>	<u>5,939,100</u>
Total Expenditures	\$37,630,700	\$10,118,600	\$15,461,300	\$4,725,800	\$67,936,400^{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 4

End of Year Probation Caseloads ^{1/}

	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Actual</u>	<u>FY 2018 Estimate</u>	<u>FY 2019 Estimate</u>
Probation Category					
Adult Standard ^{2/}	14,985	15,484	16,047	16,580	17,131
Adult Intensive	1,280	1,291	1,211	1,192	1,154
Juvenile Standard	1,607	1,475	1,483	1,320	1,219
Juvenile Intensive	<u>457</u>	<u>429</u>	<u>398</u>	<u>369</u>	<u>339</u>
Total Caseload	18,329	18,679	19,139	19,461	19,843

^{1/} Numbers represent June probation caseloads.
^{2/} Does not include Interstate Compact participants.

Department of Juvenile Corrections

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	20,057,900	19,091,100	21,367,400
Employee Related Expenditures	11,034,100	10,837,200	12,668,300
Professional and Outside Services	966,200	859,700	859,700
Travel - In State	310,300	300,400	300,400
Travel - Out of State	11,900	2,900	2,900
Other Operating Expenditures	4,945,900	4,471,100	4,550,700
Equipment	516,700	642,500	642,500
AGENCY TOTAL	37,843,000	36,204,900	40,391,900 ^{1/2/}
FUND SOURCES			
General Fund	23,013,900	19,549,800	22,734,500
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	530,000	531,300	531,400
Department of Juvenile Corrections Local Cost Sharing Fund	11,260,000	11,260,000	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,002,300	3,272,600	4,011,600
State Education Fund for Committed Youth	1,036,800	1,591,200	1,854,400
SUBTOTAL - Other Appropriated Funds	14,829,100	16,655,100	17,657,400
SUBTOTAL - Appropriated Funds	37,843,000	36,204,900	40,391,900
Other Non-Appropriated Funds	196,700	513,100	513,100
Federal Funds	698,800	659,100	659,100
TOTAL - ALL SOURCES	38,738,500	37,377,100	41,564,100

AGENCY DESCRIPTION — The Department of Juvenile Corrections (DJC) is responsible for the care and treatment of youth offenders adjudicated to be delinquent and remanded to the custody of the department. DJC has jurisdiction over youth until they are released from custody or reach age 18.

Operating Budget

The budget includes \$40,391,900 and 738.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$22,734,500
Criminal Justice Enhancement Fund (CJEF)	531,400
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	4,011,600
State Education Fund for Committed Youth	1,854,400

FY 2019 adjustments are as follows:

32 Additional Youth Corrections Officers

The budget includes an increase of \$2,126,300 from the General Fund in FY 2019 for 32 additional Youth Correction Officers. The federal Prison Rape Elimination Act (PREA) required a daytime inmate to officer ratio of 8:1 beginning October 1, 2017. This funding allows DJC to hire enough officers to ensure compliance. DJC has enough capacity within its existing FTE Position authority to hire this staff.

Fund Shift from General Fund to Land Fund

The budget includes a decrease of \$(1,000,000) from the General Fund and a corresponding increase of \$1,000,000

^{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.

from the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2019 for a fund shift.

Salary Adjustment Increase

The budget includes an increase of \$150,000 from the State Education Fund for Committed Youth in FY 2019 as part of the funding formula increase approved in the FY 2019 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 285). This increase will be used to raise teacher salaries by 10% and pay associated benefits.

Retirement Adjustment

The budget includes an increase of \$2,247,100 in FY 2019 for the employer retirement contribution rates. This amount consists of:

General Fund	2,139,000
State Education Fund for Committed Youth	108,100

In FY 2019, the DJC employer contribution rate for the Corrections Officer Retirement Plan will rise from 31.03% to 47.20%. Additionally, the adjustment includes monies for the statewide increase in the Arizona State Retirement System rate. *(Please see the Consolidated Retirement Report for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(336,400) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(80,600)
State Charitable, Penal and Reformatory Institutions Land Fund	(261,000)
State Education Fund for Committed Youth	5,100
Criminal Justice Enhancement Fund (CJEF)	100

(Please see the Agency Detail and Allocations section.)

Other Issues

Local Cost Sharing

The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their share of a portion of the operational costs of DJC. The FY 2019 Criminal Justice BRB (Laws 2018, Chapter 278) continues to set the total contribution by counties at \$11,260,000. *Table 1* displays the estimated payment by county:

<u>County</u>	<u>FY 2019</u>
Apache County	\$ 126,000
Cochise County	231,400
Coconino County	236,900
Gila County	94,400
Graham County	65,600
Greenlee County	14,800
La Paz County	36,200
Maricopa County	6,724,000
Mohave County	352,600
Navajo County	189,300
Pima County	1,726,900
Pinal County	661,900
Santa Cruz County	83,500
Yavapai County	371,700
Yuma County	344,800
TOTAL	\$11,260,000

The FY 2019 budget includes a one-time \$11,260,000 General Fund appropriation to the Department of Administration for distribution to counties to pay the full cost of the FY 2019 contribution. *(Please see the County Funding narrative for more information on state distributions to counties.)*

Population Counts

Table 2 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 2*, the housed population within DJC has decreased from 321 to 169, or (42.1)%, from FY 2015 through April 2018. The total parole population has also decreased significantly, realizing a reduction of (53.5)% 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.

The FY 2016 Criminal Justice BRB altered the requirements for admission to DJC facilities. These changes include an increase in the minimum admission age to 14, the requirement that juveniles who are admitted must have committed a felony in the past, and the allowance for those that are adjudicated as seriously mentally ill to be allowed admission if they have only committed a misdemeanor. Prior to this bill, the minimum age for admission was 8 years and individuals who had committed a misdemeanor were allowed entrance.

Table 2

	DJC Census			
	FY 2015 Average <u>Population</u>	FY 2016 Average <u>Population</u>	FY 2017 Average <u>Population</u>	Population as of <u>April 30, 2018</u>
Housed Population				
Adobe Mountain	321	227	179	169
Parole Population				
Parole	127	81	68	33
Interstate Compact (Inside Arizona) ^{1/}	<u>114</u>	<u>111</u>	<u>108</u>	<u>79</u>
Total Parole Population	<u>241</u>	<u>192</u>	<u>176</u>	<u>112</u>
Total DJC Population	562	419	355	281

^{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 2017 and 1 parolee on April 30, 2018.

State Land Department

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.7	129.7	129.7
Personal Services	5,881,300	8,691,200	7,709,000
Employee Related Expenditures	2,257,100	1,910,300	1,652,900
Professional and Outside Services	2,658,200	2,405,100	4,855,100
Travel - In State	94,000	100,000	88,500
Travel - Out of State	9,700	10,000	8,800
Other Operating Expenditures	2,722,400	1,619,900	2,589,400
Equipment	62,300	65,000	65,000
OPERATING SUBTOTAL	13,685,000	14,801,500	16,968,700 ^{1/2/}
SPECIAL LINE ITEMS			
CAP User Fees	994,400	1,443,500	1,443,500 ^{3/}
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	537,000	650,000	650,000 ^{4/}
Professional Service Contracts	0	250,000	0 ^{2/}
Reassessment of Federal Permits	0	750,000	0 ^{2/}
Right-of-Way Digitization	0	450,000	0 ^{2/}
Streambed Navigability Litigation	12,700	220,000	220,000
Survey Assets	0	500,000	0 ^{2/}
Workflow Digitization	0	500,000	0 ^{2/}
AGENCY TOTAL	15,229,100	20,065,000	19,782,200 ^{5/}
FUND SOURCES			
General Fund	12,269,200	12,815,000	11,733,400
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	147,500	260,600	260,600
Trust Land Management Fund	2,812,400	6,489,400	7,288,200
SUBTOTAL - Other Appropriated Funds	2,959,900	7,250,000	8,048,800
SUBTOTAL - Appropriated Funds	15,229,100	20,065,000	19,782,200
Other Non-Appropriated Funds	623,700	663,000	663,000
TOTAL - ALL SOURCES	15,852,800	20,728,000	20,445,200

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/} On or before November 15, 2018, the department shall provide a report to the Joint Legislative Budget Committee as to the effectiveness of innovation projects in FY 2018 and the department's planned projects for FY 2019. The report shall include an account of innovation project expenditures, the benefits of the projects to state trust lands, the status of the projects and the projected timeline for completion. (General Appropriation Act footnote)
- ^{2/} Innovation projects include the following projects, which were appropriated as separate line items in FY 2018 and are included in the operating lump sum in FY 2019: Professional Service Contracts, Reassessment of Federal Permits, Right-of-Way Digitization, Survey Assets, and Workflow Digitization. (General Appropriation Act footnote)
- ^{3/} The appropriation includes \$1,443,500 for Central Arizona Project User Fees in FY 2019. For FY 2019, 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)
- ^{4/} Of the amount appropriated for Natural Resource Conservation Districts in FY 2019, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers. (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 \$16,968,700 and 129.7 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$9,679,900
Environmental Special Plate Fund	600
Trust Land Management Fund	7,288,200

FY 2019 adjustments are as follows:

Fire Suppression

The budget includes an increase of \$800,000 from the Trust Land Management Fund in FY 2019 for fire suppression costs. Pursuant to an interagency service agreement between the State Land Department and the Arizona Department of Forestry and Fire Management, \$800,000 of fire suppression activity on state trust lands will be funded by the Trust Land Management Fund in FY 2019. *(Please see the Arizona Department of Forestry and Fire Management narrative for more information.)*

Fund Shift to Trust Land Management Fund

The budget includes a decrease of \$(1,200,000) from the General Fund in FY 2019 along with a corresponding increase of \$1,200,000 from the Trust Land Management Fund to shift a portion of the department's operating costs from the General Fund to the Trust Land Management Fund.

Shift Funding to Operating Budget

The budget includes an increase of \$1,250,000 from the Trust Land Management Fund in FY 2019 to convert the one-time funding for the department's 5 innovation projects into ongoing funding and shift that funding from the respective project line items to the department's operating budget. Innovation projects include the following projects, which were appropriated as separate line items in FY 2018 and are included in the department's operating budget in FY 2019: Professional Service Contracts, Reassessment of Federal Permits, Right-of-Way Digitization, Survey Assets, and Workflow Digitization.

A General Appropriation Act footnote requires the department to provide a report to the Joint Legislative Budget Committee by November 15, 2018, as to the effectiveness of innovation projects in FY 2018 and the department's planned innovation projects for FY 2019.

Statewide Adjustments

The budget includes an increase of \$117,200 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	118,400
Trust Land Management Fund	(1,200)

(Please see the Agency Detail and Allocations section.)

CAP User Fees

The budget includes \$1,443,500 from the General Fund in FY 2019 for Central Arizona Project (CAP) User Fees. FY 2019 adjustments are as follows:

CAP Rate Adjustment

The budget continues an increase of \$449,100 from the General Fund that was provided in FY 2018 as a supplemental for revised CAP rates. This funding level assumes that the department will be billed for "capital charges" of \$45 per acre foot on 32,076 acre feet of water in FY 2018 and again in FY 2019 for a total annual charge of \$1,443,500. This amount would be \$449,100 above the original FY 2018 CAP user fee appropriation of \$994,400. The original FY 2018 appropriation reflected capital charges of \$31 per acre foot, but CAP rates are not determined until June 15 of each year and the final rate for FY 2018 ended up being \$45 per acre foot. As a result, the budget also includes a \$449,100 supplemental from the General Fund to cover the higher-than-budgeted FY 2018 rates.

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 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 2019 for this line item. This amount is unchanged from FY 2018.

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 2019 for Natural Resource Conservation Districts (NRCs). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2018.

This line item funds natural resource research, activities, and staff at the state's 30 NRCs. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRC and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCs be used to provide grants to NRC environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCs. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

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 2017 totaled \$147,500 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 no funding in FY 2019 for the Professional Service Contracts line item. FY 2019 adjustments are as follows:

Shift Funding to Operating Budget

The budget includes a decrease of \$(250,000) from the Trust Land Management Fund in FY 2019 to shift funding

for the Professional Service Contracts line item to the department's operating budget. *(Please see the Operating Budget for more information.)*

Monies in this line item funded service contracts for 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 no funding in FY 2019 for the Reassessment of Federal Permits line item. FY 2019 adjustments are as follows:

Shift Funding to Operating Budget

The budget includes a decrease of \$(750,000) from the Trust Land Management Fund in FY 2019 to shift funding for the Reassessment of Federal Permits line item to the department's operating budget. *(Please see the Operating Budget for more information.)*

This line item funded hydrology studies associated with Federal 404 permits in the Desert Ridge, Paradise Ridge, and Azara areas. 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.

The Desert Ridge, Paradise Ridge, and Azara areas are currently subject to Federal 404 permits, which may be inconsistent with the hydrology in the surrounding areas. Reassessing the hydrology studies could increase the value of these trust land parcels by allowing greater real estate and infrastructure development.

Right-of-Way Digitization

The budget includes no funding in FY 2019 for the Right-of-Way Digitization line item. FY 2019 adjustments are as follows:

Shift Funding to Operating Budget

The budget includes a decrease of \$(450,000) from the Trust Land Management Fund in FY 2019 to shift funding for the Right-of-Way Digitization line item to the department's operating budget. *(Please see the Operating Budget for more information.)*

Land Trust land parcels encompass over 7,500 right-of-way legal descriptions which were previously recorded in paper documents. This line item funded the conversion of the paper records into a digital GIS format to allow for more accurate prioritization of land use rights and to help mitigate legal exposure.

Streambed Navigability Litigation

The budget includes \$220,000 from the General Fund in FY 2019 for Streambed Navigability Litigation. This amount is unchanged from FY 2018.

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 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 no funding in FY 2019 for the Survey Assets line item. FY 2019 adjustments are as follows:

Shift Funding to Operating Budget

The budget includes a decrease of \$(500,000) from the Trust Land Management Fund in FY 2019 to shift funding for the Survey Assets line item to the department's operating budget. *(Please see the Operating Budget for more information.)*

This line item funded 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 no funding in FY 2019 for the Workflow Digitization line item. FY 2019 adjustments are as follows:

Shift Funding to Operating Budget

The budget includes a decrease of \$(500,000) from the Trust Land Management Fund in FY 2019 to shift funding for the Workflow Digitization line item to the

department's operating budget. *(Please see the Operating Budget for more information.)*

This line item funded the digitization of the department's paper-based system for applications, billing defaults, cancellations and purchase orders.

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes an FY 2018 supplemental appropriation of \$449,100 from the General Fund for CAP User Fees. The supplemental brings the department's total FY 2018 CAP User Fee appropriation to \$1,443,500. *(Please see CAP User Fees 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 \$171,892,400 in incremental land trust funds to K-12 schools in FY 2017 and \$187,984,000 in FY 2018. The 4.4% incremental funding increase will provide \$204,852,300 in incremental funds in FY 2019. *(Please see the October 2015 Special Session and Proposition 123 section of the Department of Education narrative in 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 \$20,376,700 in FY 2017 and \$22,205,600 in FY 2018. In FY 2019, non-K-12 beneficiaries will receive \$24,178,400. 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 \$33,599,500 in FY 2019. *(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 2018 Ending Balance</u>	<u>FY 2019 Total Revenue</u> ^{2/}	<u>FY 2019 Appropriation</u>
Universities ^{3/}				
Military Institute	\$ 83,800		\$ 138,200	
Normal Schools ASU/NAU	296,600		757,800	
A & M Colleges	445,100		985,600	
School of Mines	499,800		1,200,000	
University Fund	2,175,400		2,740,000	
U of A Land - 1881	<u>1,659,400</u>		<u>6,446,600</u>	
Subtotal	\$ 5,160,100		\$12,268,200	
School for Deaf and Blind ^{4/}	\$ 424,400		\$ 719,600	
State Hospital	\$ 701,000	\$ 1,458,100	\$ 1,226,600	\$ 650,000
Legal, Executive, & Judicial Buildings	\$ 386,300	\$ 4,903,800	\$ 817,700	\$ 0
Corrections				
Penitentiaries	\$ 1,382,600	\$ 2,860,800	\$ 2,484,000	\$ 2,507,400
State Charitable (25%)	<u>1,452,500</u>	<u>3,363,300</u>	<u>2,979,200</u>	<u>3,079,500</u>
Subtotal	\$ 2,835,100	\$ 6,224,100	\$ 5,463,200	\$ 5,586,900
Pioneers' Home				
Miners' Hospital	\$ 1,981,400	\$ 6,360,300	\$ 4,166,800	\$ 2,178,800
State Charitable (50%)	<u>2,905,000</u>	<u>6,576,700</u>	<u>5,958,300</u>	<u>4,505,200</u>
Subtotal	\$ 4,886,400	\$ 12,937,000	\$ 10,125,100	\$ 6,684,000
Juvenile Corrections (State Charitable 25%)	\$ 1,452,500	\$ 2,179,700	\$ 2,979,100	\$ 4,011,600
Non-K-12 Beneficiaries Total	\$15,845,800		\$33,599,500	
^{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. Projected FY 2019 lease revenues are based on actual FY 2017 amounts. ^{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 2019 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.				

Legislature - Auditor General

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.8	188.8	195.8
Personal Services	11,235,800	11,550,800	12,018,400
Employee Related Expenditures	4,142,600	4,496,400	4,550,500
Professional and Outside Services	699,100	524,100	524,100
Travel - In State	290,800	307,300	312,500
Travel - Out of State	4,500	4,500	4,500
Other Operating Expenditures	1,126,400	1,152,400	1,618,800
Equipment	567,300	653,300	680,800
OPERATING SUBTOTAL	18,066,500	18,688,800	19,709,600 ^{1/2/3/4/}
SPECIAL LINE ITEMS			
Special Audit	0	200,000	0
AGENCY TOTAL	18,066,500	18,888,800	19,709,600
FUND SOURCES			
General Fund	18,066,500	18,688,800	19,709,600
<u>Other Appropriated Funds</u>			
Water Banking Fund	0	200,000	0
SUBTOTAL - Other Appropriated Funds	0	200,000	0
SUBTOTAL - Appropriated Funds	18,066,500	18,888,800	19,709,600
Other Non-Appropriated Funds	2,499,100	2,040,200	2,040,200
TOTAL - ALL SOURCES	20,565,600	20,929,000	21,749,800

AGENCY DESCRIPTION — The Auditor General (AG) provides an independent financial, performance, and compliance audit capability in support of legislative oversight and public accountability of funds administered by the state and certain local governments.

Operating Budget

The budget includes \$19,709,600 and 195.8 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Rent Adjustment

The budget includes an increase of \$228,000 from the General Fund in FY 2019 for a rent adjustment. The Auditor General's main office is now privately owned and is subject to a higher monthly lease rate.

Additional Capacity for Caseload

The budget includes an increase of \$200,000 from the General Fund in FY 2019 to provide additional capacity for an increased audit caseload.

Increased Staffing for Performance Audit Division

The budget includes an increase of \$585,500 and 5 FTE Positions from the General Fund in FY 2019 for increased staffing for the Performance Audit Division. The FY 2019 General Appropriation Act appropriates \$1,083,000 and 10 FTE Positions from the General Fund in FY 2020 for the same purpose.

This increased funding will permit the agency to increase the frequency of sunset reviews from a 10-year cycle to an 8-year cycle. Although the division historically has been funded based on a 10-year cycle, most agencies now receiving sunset reviews every 8 years.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{3/} Included in the lump sum appropriation is funding to pay state rent at the statewide rate. (General Appropriation Act footnote)

^{4/} The sum of \$1,083,000 and 10 FTE Positions are appropriated from the state General Fund in FY 2020 to the Auditor General for operating expenditures. (General Appropriation Act footnote)

Special Investigative Unit

The budget includes an increase of \$107,500 and 2 FTE Positions from the General Fund in FY 2019 for a special investigative unit. The FY 2018 General Appropriation Act appropriated \$572,500 and 4 FTE Positions from the General Fund for this unit. The same legislation advance appropriated \$680,000 and 6 FTE Positions for the same purpose in FY 2019. The \$107,500 and 2 FTE Positions represent the FY 2019 increase above FY 2018. The \$680,000 and 6 FTE Positions do not appear in the FY 2019 General Appropriation Act as these monies have already been appropriated.

Statewide Adjustments

The budget includes a decrease of \$(100,200) from the General Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Special Audit

The budget includes no funding from the Arizona Water Banking Fund in FY 2019 for a one-time special audit of the Central Arizona Water Conservation District. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(200,000) from the Arizona Water Banking Fund in FY 2019 for a special audit. The special audit of the Central Arizona Water Conservation District has been completed.

Legislature - House of Representatives

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	13,322,300	13,419,100	13,835,000
AGENCY TOTAL	13,322,300	13,419,100	13,835,000 ^{1/2/3/}
FUND SOURCES			
General Fund	13,322,300	13,419,100	13,835,000
SUBTOTAL - Appropriated Funds	13,322,300	13,419,100	13,835,000
TOTAL - ALL SOURCES	13,322,300	13,419,100	13,835,000

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 \$13,835,000 from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$415,900 from the General Fund in FY 2019 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 \$13,835,000 for FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,642,600	1,661,800	1,661,800
Employee Related Expenditures	492,200	626,800	617,800
Professional and Outside Services	125,400	125,000	125,000
Travel - In State	500	500	500
Travel - Out of State	1,100	0	0
Other Operating Expenditures	44,300	97,700	97,700
Equipment	3,400	2,000	2,000
AGENCY TOTAL	2,309,500	2,513,800	2,504,800 ^{1/2/}
FUND SOURCES			
General Fund	2,309,500	2,513,800	2,504,800
SUBTOTAL - Appropriated Funds	2,309,500	2,513,800	2,504,800
TOTAL - ALL SOURCES	2,309,500	2,513,800	2,504,800

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 \$2,504,800 and 29 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,000) from the General Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	49.0	49.0	55.0 ^{1/}
Personal Services	2,686,300	2,790,300	2,790,300
Employee Related Expenditures	920,800	960,200	938,300
Professional and Outside Services	8,900	101,000	101,000
Other Operating Expenditures	140,000	777,000	777,000
Equipment	2,418,600	2,827,000	2,827,000
OPERATING SUBTOTAL	6,174,600	7,455,500	7,433,600
SPECIAL LINE ITEMS			
Hearing Loop Installation	250,000 ^{2/}	0	0
Ombudsman-Citizens Aide Office	807,900	822,900	871,300 ^{3/}
AGENCY TOTAL	7,232,500	8,278,400	8,304,900 ^{4/5/6/}
FUND SOURCES			
General Fund	6,982,500	8,278,400	8,304,900
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	250,000	0	0
SUBTOTAL - Other Appropriated Funds	250,000	0	0
SUBTOTAL - Appropriated Funds	7,232,500	8,278,400	8,304,900
TOTAL - ALL SOURCES	7,232,500	8,278,400	8,304,900

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 \$7,433,600 and 46 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Additional Personnel

The budget includes an increase of 6 FTE Positions from the General Fund in FY 2019 for additional personnel. Legislative Council will train new staff/attorneys to assume responsibilities of retiring staff/attorneys and hire staff to address additional responsibilities regarding management of Capitol Mall events. No increased

appropriation is necessary. The cost would be absorbed with existing appropriations.

Statewide Adjustments

The budget includes a decrease of \$(21,900) from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Ombudsman-Citizens Aide Office

The budget includes \$871,300 and 9 FTE Positions from the General Fund in FY 2019 for the Ombudsman-Citizens Aide Office. FY 2019 adjustments are as follows:

- 1/ Includes 9 GF FTE Positions funded from Special Line Items in FY 2019.
- 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.

Equity Salary Increase and Rent Adjustment

The budget includes an increase of \$52,800 from the General Fund in FY 2019 for salary increases and increased rent charges. The rent adjustment is needed because the previous office lease expired and the new lease has a higher monthly charge.

Statewide Adjustments

The budget includes a decrease of \$(4,400) from the General Fund in FY 2019 for statewide adjustments.

Monies in this line item fund operation of the Ombudsman-Citizens Aide Office, which receives public complaints, investigates administrative acts of agencies, and may present their final opinion and recommendations to the Governor, the Legislature, the office of the appropriate prosecutor or the public, or any combination of these persons. The Ombudsman-Citizens Aide Office also trains public officials and educates the public on the rights of the public and the responsibilities of public agencies under the public access laws.

Legislature - Senate

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	8,905,600	9,548,100	9,747,200
AGENCY TOTAL	8,905,600	9,548,100	9,747,200 ^{1/2/3/}
FUND SOURCES			
General Fund	8,905,600	9,548,100	9,747,200
SUBTOTAL - Appropriated Funds	8,905,600	9,548,100	9,747,200
TOTAL - ALL SOURCES	8,905,600	9,548,100	9,747,200

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 \$9,747,200 from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$199,100 from the General Fund in FY 2019 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 \$9,747,200 for FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	45.2	45.2	45.2
Personal Services	1,399,800	1,399,800	1,367,600
Employee Related Expenditures	817,700	858,100	803,300
Professional and Outside Services	147,100	97,700	245,000
Travel - In State	103,300	113,900	113,900
Travel - Out of State	2,000	2,000	2,000
Other Operating Expenditures	534,500	576,000	554,200
OPERATING SUBTOTAL	3,004,400	3,047,500	3,086,000 ^{1/}
SPECIAL LINE ITEMS			
Licensing Replacement System	595,000	0	0
AGENCY TOTAL	3,599,400	3,047,500	3,086,000
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	3,599,400	3,047,500	3,086,000
SUBTOTAL - Other Appropriated Funds	3,599,400	3,047,500	3,086,000
SUBTOTAL - Appropriated Funds	3,599,400	3,047,500	3,086,000
Other Non-Appropriated Funds	971,100	983,600	983,600
Federal Funds	292,200	279,300	279,300
TOTAL - ALL SOURCES	4,862,700	4,310,400	4,348,900

AGENCY DESCRIPTION — The department licenses, investigates and regulates the production, distribution, and sale of alcoholic beverages throughout the state.

Operating Budget

The budget includes \$3,086,000 and 45.2 FTE Positions from the Liquor Licenses Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

E-Licensing Subscription Costs

The budget includes an increase of \$147,300 from the Liquor Licenses Fund in FY 2019 for ongoing software subscription costs for the agency's new E-Licensing system. The department received a total of \$1,026,700 combined in FY 2015 and FY 2016 to develop the E-Licensing system.

Licensing Position Vacancy Savings

The budget includes a decrease of \$(41,700) from the Liquor Licenses Fund in FY 2019 for savings resulting from keeping an FTE Position opening in the agency's Licensing Department vacant.

Rent Savings

The budget includes a decrease of \$(10,000) from the Liquor Licenses Fund in FY 2019 for savings resulting from the relocation of the agency's Tucson office space.

Fleet Reduction Savings

The budget includes a decrease of \$(4,500) from the Liquor Licenses Fund in FY 2019 to reduce the agency's vehicle fleet from 22 to 21 vehicles.

Statewide Adjustments

The budget includes a decrease of \$(52,600) from the Liquor Licenses Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

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

Arizona State Lottery Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	98.8	98.8	98.8
Personal Services	3,764,600	4,812,000	4,812,000
Employee Related Expenditures	1,507,600	1,798,100	1,752,000
Professional and Outside Services	423,500	386,800	386,800
Travel - In State	190,400	271,600	271,600
Travel - Out of State	10,300	16,800	16,800
Other Operating Expenditures	1,256,200	1,173,200	1,963,200
Equipment	57,800	0	0
OPERATING SUBTOTAL	7,210,400	8,458,500	9,202,400
SPECIAL LINE ITEMS			
Advertising	12,198,800	15,500,000	15,500,000
Charitable Commissions ^{1/}	1,296,900	1,385,700	1,577,600 ^{2/}
Instant Tickets ^{1/}	14,082,800	20,516,700	25,687,500 ^{3/}
On-Line Vendor Fees ^{1/}	8,676,700	10,221,400	10,120,100 ^{4/}
Retailer Commissions ^{1/}	55,791,100	60,696,300	63,210,600 ^{5/}
AGENCY TOTAL	99,256,700	116,778,600	125,298,200 ^{6/}

FUND SOURCES

Other Appropriated Funds

State Lottery Fund	99,256,700	116,778,600	125,298,200
SUBTOTAL - Other Appropriated Funds	99,256,700	116,778,600	125,298,200
SUBTOTAL - Appropriated Funds	99,256,700	116,778,600	125,298,200
Other Non-Appropriated Funds	559,491,400	584,638,500	610,328,400
TOTAL - ALL SOURCES	658,748,100	701,417,100	735,626,600

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-jurisdictional Powerball and Mega-Millions on-line games.

Operating Budget

The budget includes \$9,202,400 and 98.8 FTE Positions from the State Lottery Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

IT Licensing and Maintenance

The budget includes an increase of \$790,000 from the State Lottery Fund in FY 2019 for ongoing licensing and

maintenance costs associated with the commission's new IT system.

Statewide Adjustments

The budget includes a decrease of \$(46,100) from the State Lottery Fund in FY 2019 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 \$1,577,600 in FY 2019. (General Appropriation Act footnote)
- ^{3/} An amount equal to 3.6% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$25,687,500 in FY 2019. (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 \$10,120,100, or 4.256% of actual on-line ticket sales in FY 2019. (General Appropriation Act footnote)
- ^{5/} An amount equal to 6.5% of gross lottery game sales, minus Charitable 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 \$63,210,600 in FY 2019. (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 2019 for Advertising. This amount is unchanged from FY 2018.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The budget includes \$1,577,600 from the State Lottery Fund in FY 2019 for Charitable Commissions. FY 2019 adjustments are as follows:

Tab Ticket Increase

The budget includes an increase of \$191,900 from the State Lottery Fund in FY 2019 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 \$25,687,500 from the State Lottery Fund in FY 2019 for Instant Tickets. FY 2019 adjustments are as follows:

Instant Ticket Sales Increase

The budget includes an increase of \$1,246,400 from the State Lottery Fund in FY 2019 for Instant Tickets due to higher projected sales. (See Table 1 for more information.)

Instant Ticket Vendor Rate Increase

The budget includes an increase of \$3,924,400 from the State Lottery Fund in FY 2019 for an increased 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% to 3.05% in FY 2018. This figure reflects a blended rate across different services. The appropriation returned to 3.6% in FY 2019. The amount displayed is derived by applying the new

approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The budget includes \$10,120,100 from the State Lottery Fund in FY 2019 for On-Line Vendor Fees. FY 2019 adjustments are as follows:

On-Line Sales Decrease

The budget includes a decrease of \$(101,300) from the State Lottery Fund in FY 2019 for On-Line Vendor Fees due to lower 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 \$63,210,600 from the State Lottery Fund in FY 2019 for Retailer Commissions. FY 2019 adjustments are as follows:

Retailer Commissions Increase

The budget includes an increase of \$2,514,300 from the State Lottery Fund in FY 2019 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-charitable Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-charitable 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

Lottery Forecast and Distributions

The budget assumes a 7.1% increase in overall Lottery ticket sales in FY 2018, followed by a 4.2% increase in FY 2019. For FY 2018 and FY 2019, the budget assumes Lottery ticket sales of \$912,843,600 and \$951,329,600, respectively.

The FY 2018 forecasted sales and Special Line Items expenditures included are higher than the amounts included as part of the *FY 2018 Appropriations Report*. This increase is due to a revised FY 2018 sales forecast. These revised amounts are estimates based on the current sales forecast and the special line item percentages included in the FY 2018 General Appropriation Act footnotes. The actual FY 2018 expenditures will be determined by the actual Lottery ticket sales during FY 2018.

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 2017 and the JLBC Staff projected distributions for FY 2018 and FY 2019. 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 2018 and FY 2019 are expected to be \$37,500,800 and \$37,502,900, 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 \$11,529,000 in each FY 2018 and FY 2019.

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 2018 and FY 2019 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,500,800 in FY 2018 and \$37,502,900 in FY 2019 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 2018 and FY 2019, 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 \$21,002,600 in FY 2018 and \$21,308,000 in FY 2019. 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 2018 and FY 2019.

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 2018 and FY 2019.

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 2018 and FY 2019, 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 2018 and FY 2019.

University Capital Improvement (UCI) 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 Stimulus Plan for Economic and Educational Development (SPEED) bonds. This fund received \$39,927,000 in FY 2017. The UCI Fund is expected to require \$39,915,800 in FY 2018 and \$39,907,400 in FY 2019 to make the expected 80% level of debt service payments. The Universities do not plan to issue any additional Lottery SPEED bonds in FY 2019 above the \$668,710,000 of bonds that have already been or will be issued by the end of FY 2018. 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 2019 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 \$20,729,000 in FY 2018 and \$28,195,900 in FY 2019. Total General Fund distributions, net of bond payments, are therefore estimated to be \$82,868,200 in FY 2018 and \$90,333,000 in FY 2019.

Table 1

Forecast of Lottery Revenue Distribution
(\$ in Millions)

Sales	FY 2017	FY 2018	FY 2019
Instant Sales	\$640.5	\$672.7	\$713.5
On-Line Sales	<u>211.5</u>	<u>240.1</u>	<u>237.8</u>
Total Sales	\$852.0	\$912.8	\$951.3
<i>Less:</i>			
Operating Budget ^{1/}	\$ 99.3	\$ 116.8	\$ 125.3
Gaming Distribution	0.3	0.3	0.3
ICACF/VREF Sales Transfer ^{2/}	0.3	0.3	0.3
APF Transfer ^{3/}	0.0	3.5	0.0
Prizes ^{4/}	<u>559.5</u>	<u>584.6</u>	<u>610.3</u>
Net Profit ^{5/}	\$192.6	\$207.3	\$210.4
Profit Transfers ^{6/}			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{7/}	11.5	11.5	11.5
General Fund - Part 1 ^{8/9/}	46.7	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	20.7	21.0	21.3
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 ^{8/9/}	15.5	15.5	15.5
Arizona Commerce Authority	3.5	3.5	3.5
University Capital	39.9	39.9	39.9
General Fund - Part 3 ^{8/9/}	<u>6.3</u>	<u>20.7</u>	<u>28.2</u>
Total Transfer	\$192.6	\$207.3	\$215.1

- ^{1/} Of this amount, an estimated \$1,385,700 in FY 2018 and an estimated \$1,577,600 in FY 2019 will be distributed as commissions to charities that sell lottery Tab Tickets.
- ^{2/} A.R.S. § 5-554H allows the commission to sell tab tickets from vending machine in age-restricted areas. Profits from these sales are distributed to the Internet Crimes Against Children Enforcement Fund (ICACF) and the Victims' Rights Enforcement Fund (VREF), respectively. The ICAC Fund receives up to \$900,000 and the VREF receives up to \$100,000. If net profits from age-restricted tab tickets are less than \$1.0 million, then the difference will be paid to ICACF and VREF from unclaimed prize monies in the State Lottery Fund. In FY 2017, \$298,500 was distributed to the ICACF/VREF from the sale of tab tickets. An estimated \$313,400 and \$322,800 will be distributed in FY 2018 and FY 2019, respectively. (See Footnote 6.)
- ^{3/} 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.
- ^{4/} Prizes are estimated by subtracting net profit, operating budget expenditures, and the Department of Gaming transfer from total Lottery sales.
- ^{5/} To derive the profit transfer amounts, the historical rate of return for each game was applied to the current budget forecast. The total rate of return on all games in FY 2017 was 22.68%. The estimated total profit margin is 22.78% in FY 2018 and 22.67% in FY 2019.
- ^{6/} In addition to these listed transfers, the following monies are distributed:
- 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).
 - An estimated \$686,600 in FY 2018 and \$677,200 in FY 2019 of unclaimed prizes to ICACF and VREF.
- ^{7/} As a result of a federal court order, Maricopa County's share of Local Transportation Assistance Fund II monies was reinstated starting September 2011. (See Other Issues section for more information.)
- ^{8/} Excluding fund transfers, distributions to the General Fund were reported by the Lottery Commission to be \$68,497,000 in FY 2017. This amount reflects profits only related to FY 2017 sales. Due to the timing of Lottery profit transfers from prior year sales, however, the actual FY 2017 General Fund distribution amount was \$78,690,400.
- ^{9/} Excluding fund transfers, distributions to the General Fund are estimated to be \$82,868,200 in FY 2018 and \$90,333,000 in FY 2019.

Board of Massage Therapy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	192,100	192,200	192,200
Employee Related Expenditures	82,000	82,000	80,100
Professional and Outside Services	56,800	56,800	56,800
Travel - In State	200	500	500
Other Operating Expenditures	79,400	134,600	131,300
Equipment	3,100	0	0
AGENCY TOTAL	413,600	466,100	460,900^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Massage Therapy Fund	413,600	466,100	460,900
SUBTOTAL - Other Appropriated Funds	413,600	466,100	460,900
SUBTOTAL - Appropriated Funds	413,600	466,100	460,900
TOTAL - ALL SOURCES	413,600	466,100	460,900

AGENCY DESCRIPTION — The board licenses and regulates massage therapists. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$460,900 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$3,700 from the Board of Massage Therapy Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes a decrease of \$(8,900) from the Board of Massage Therapy Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$10,100 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Medical Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	61.5	61.5	61.5
Personal Services	2,982,400	3,337,200	3,337,200
Employee Related Expenditures	1,030,500	1,305,100	1,283,300
Professional and Outside Services	863,300	973,600	973,600
Travel - In State	15,500	22,500	22,500
Travel - Out of State	7,600	29,000	29,000
Other Operating Expenditures	894,900	898,200	900,200
Equipment	193,800	276,300	276,300
OPERATING SUBTOTAL	5,988,000	6,841,900	6,822,100
SPECIAL LINE ITEMS			
Employee Performance Incentive Program	149,900	165,000	165,000
AGENCY TOTAL	6,137,900	7,006,900	6,987,100 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Medical Board Fund	6,137,900	7,006,900	6,987,100
SUBTOTAL - Other Appropriated Funds	6,137,900	7,006,900	6,987,100
SUBTOTAL - Appropriated Funds	6,137,900	7,006,900	6,987,100
Other Non-Appropriated Funds	0	10,000	0
TOTAL - ALL SOURCES	6,137,900	7,016,900	6,987,100

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician’s assistants.

Operating Budget

The budget includes \$6,822,100 and 61.5 FTE Positions from the Arizona Medical Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$17,400 from the Arizona Medical Board Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes a decrease of \$(37,200) from the Arizona Medical Board Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Employee Performance Incentive Program

The budget includes \$165,000 from the Arizona Medical Board Fund in FY 2019 for the Employee Performance Incentive Program line item. FY 2019 adjustments are as follows:

Continue Incentive Program in New Line Item

The budget includes \$165,000 from the Arizona Medical Board Fund in FY 2019 to continue funding the Employee Performance Incentive Program as a new line item.

The program was previously funded by a footnote allowing the Medical Board to use up to 7% of the prior year balance from the Medical Board Fund. The board has budgeted up to 3% of the fund balance for the past several years. Program expenditures prior to FY 2017 were not reported by the agency. The board awards employees based on performance of certain agency-identified measures, such as the average number of days

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

taken to approve a new license after receiving an application.

In FY 2018, the Medical Board estimated using 2.6% of the FY 2017 fund balance, or \$165,000, for the program. This amount is in addition to the \$6,841,900 listed as the appropriation in the *FY 2018 Appropriations Report*. The budget creates a new line item and caps annual spending for the program at \$165,000.

Other Issues

<i>One-Time Relocation Costs</i>

This agency received a one-time non-lapsing FY 2017 appropriation of \$105,900 for relocation costs. This appropriation is not displayed in the table above.

State Mine Inspector

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	468,600	520,000	520,000
Employee Related Expenditures	193,400	244,900	256,700
Professional and Outside Services	11,700	7,500	7,500
Travel - In State	57,900	62,400	62,400
Travel - Out of State	3,800	7,500	7,500
Other Operating Expenditures	208,500	189,800	207,000
Equipment	48,800	0	0
OPERATING SUBTOTAL	992,700	1,032,100	1,061,100
SPECIAL LINE ITEMS			
Abandoned Mines	159,800	194,700	194,700
Aggregate Mining Land Reclamation	23,200	112,900	112,900 ^{1/}
AGENCY TOTAL	1,175,700	1,339,700	1,368,700 ^{2/}
FUND SOURCES			
General Fund	1,152,500	1,226,800	1,255,800
<u>Other Appropriated Funds</u>			
Aggregate Mining Reclamation Fund	23,200	112,900	112,900
SUBTOTAL - Other Appropriated Funds	23,200	112,900	112,900
SUBTOTAL - Appropriated Funds	1,175,700	1,339,700	1,368,700
Other Non-Appropriated Funds	6,300	4,400	4,400
Federal Funds	707,800	422,000	422,000
TOTAL - ALL SOURCES	1,889,800	1,766,100	1,795,100

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 \$1,061,100 and 14 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$29,000 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Abandoned Mines

The budget includes \$194,700 from the General Fund in FY 2019 for the Abandoned Mines line item. This amount is unchanged from FY 2018.

This line item pays contractors 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 2019 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 2019, the State Mine Inspector shall report the intended use of the monies to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. (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 2019 for the Aggregate Mining Land Reclamation line item. This amount is unchanged from FY 2018.

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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	99,300	100,500	100,500
Employee Related Expenditures	47,400	47,200	46,300
Professional and Outside Services	700	0	0
Travel - In State	1,500	1,100	1,100
Other Operating Expenditures	13,100	34,200	39,500
Equipment	300	0	0
AGENCY TOTAL	162,300	183,000	187,400^{1/}

FUND SOURCES

Other Appropriated Funds

Naturopathic Physicians Medical Board Fund	162,300	183,000	187,400
SUBTOTAL - Other Appropriated Funds	162,300	183,000	187,400
SUBTOTAL - Appropriated Funds	162,300	183,000	187,400
TOTAL - ALL SOURCES	162,300	183,000	187,400

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 agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$187,400 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$1,500 from the Naturopathic Physicians Medical Board Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$2,900 from the Naturopathic Physicians Medical Board Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$3,900 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Navigable Stream Adjudication Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 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	30,000	30,000	29,600
Professional and Outside Services	200,000	200,000	200,000
Other Operating Expenditures	19,500	19,500	21,800
Equipment	3,500	6,000	6,000
AGENCY TOTAL	323,000	325,500	327,400^{1/}
FUND SOURCES			
General Fund	123,000	125,500	127,400
<u>Other Appropriated Funds</u>			
Arizona Water Banking Fund	200,000	200,000	200,000
SUBTOTAL - Other Appropriated Funds	200,000	200,000	200,000
SUBTOTAL - Appropriated Funds	323,000	325,500	327,400
TOTAL - ALL SOURCES	323,000	325,500	327,400

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 \$327,400 and 2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$127,400
Arizona Water Banking Fund	200,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$1,900 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Arizona Water Banking Fund

The FY 2019 Environmental Budget Reconciliation Bill (Laws 2018, Chapter 280) 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 2019. In FY 2018, the commission spent \$200,000 from the Arizona Water Banking Fund on 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.

In 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.

In May 2017, the commission completed hearings for the 6 remanded cases and subsequently adopted its findings for each case. The reports were then delivered to the Land Commissioner, signifying the beginning of the appeals process. The Land Commissioner has a 6-month window to appeal to the Superior Court for judicial review of one or all of the cases.

As of May 2018, the commission has completed all legal proceedings and is awaiting the end of the appeals process. There may be an unknown number of cases appealed to Superior Court. Appeals would need to be filed no later than the third quarter of calendar year 2019 to avoid prolonging the expected agency sunset date. Pending any new appeals, the commission should complete the agency's trial work by the end of calendar year 2018. The commission is scheduled to sunset on June 30, 2020 pursuant to Laws 2015, Chapter 58.

State Board of Nursing

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	42.2	42.2	42.2
Personal Services	2,426,000	2,327,800	2,327,800
Employee Related Expenditures	855,300	970,500	948,100
Professional and Outside Services	270,600	341,700	341,700
Travel - In State	4,600	10,000	10,000
Travel - Out of State	9,600	8,000	8,000
Other Operating Expenditures	592,400	623,400	523,500
Equipment	80,300	42,400	42,400
OPERATING SUBTOTAL	4,238,800	4,323,800	4,201,500
SPECIAL LINE ITEMS			
Certified Nursing Assistant Credentialing Program	536,700	536,700	536,700
AGENCY TOTAL	4,775,500	4,860,500	4,738,200 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,775,500	4,860,500	4,738,200
SUBTOTAL - Other Appropriated Funds	4,775,500	4,860,500	4,738,200
SUBTOTAL - Appropriated Funds	4,775,500	4,860,500	4,738,200
Federal Funds	414,700	518,600	518,600
TOTAL - ALL SOURCES	5,190,200	5,379,100	5,256,800

AGENCY DESCRIPTION — The board licenses, regulates, conducts examinations and approves educational programs for nurses and nurse aides.

Operating Budget

The budget includes \$4,201,500 and 42.2 FTE Positions from the Board of Nursing Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(20,000) from the Board of Nursing Fund in FY 2019 for the elimination of one-time computer server relocation costs.

Remove Private Rent Payments

The budget includes a decrease of \$(287,300) from the Board of Nursing Fund in FY 2019 for the removal of private rent payments. The board relocated from private rental space to the 1740 W. Adams state office building in FY 2018. State rent payments are included in the Statewide Adjustments policy issue below.

Shared Services Costs

The budget includes an increase of \$21,200 from the Board of Nursing Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes an increase of \$163,800 from the Board of Nursing Fund in FY 2019 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 2019 for the Certified Nursing Assistant (CNA) Credentialing Program line item. This amount is unchanged from FY 2018.

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

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.

Other Issues

<i>One-Time Relocation Costs</i>

This agency received a one-time non-lapsing FY 2017 appropriation of \$108,500 for relocation costs. This appropriation is not displayed in the table above.

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	232,100	247,000	247,000
Employee Related Expenditures	90,000	103,100	101,200
Professional and Outside Services	2,800	8,000	8,000
Travel - In State	3,300	7,000	7,000
Travel - Out of State	1,200	4,000	4,000
Other Operating Expenditures	41,300	51,400	70,400
Equipment	0	6,000	6,000
AGENCY TOTAL	370,700	426,500	443,600 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	370,700	426,500	443,600
SUBTOTAL - Other Appropriated Funds	370,700	426,500	443,600
SUBTOTAL - Appropriated Funds	370,700	426,500	443,600
TOTAL - ALL SOURCES	370,700	426,500	443,600

AGENCY DESCRIPTION — The board licenses, certifies, and regulates administrators of nursing care institutions and managers of adult care homes. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$443,600 and 6 FTE Positions from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

E-Licensing Operating Costs

The budget includes an increase of \$24,400 from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes a decrease of \$(7,300) from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$7,900 for relocation costs. This appropriation is not displayed in the table above.

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

Board of Occupational Therapy Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	92,100	91,000	91,000
Employee Related Expenditures	41,300	49,100	47,700
Professional and Outside Services	100	0	0
Travel - In State	600	1,300	1,300
Other Operating Expenditures	33,300	30,300	38,100
Equipment	0	12,000	12,000
AGENCY TOTAL	167,400	183,700	190,100 ^{1/}

FUND SOURCES

Other Appropriated Funds

Occupational Therapy Fund	167,400	183,700	190,100
SUBTOTAL - Other Appropriated Funds	167,400	183,700	190,100
SUBTOTAL - Appropriated Funds	167,400	183,700	190,100
TOTAL - ALL SOURCES	167,400	183,700	190,100

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 \$190,100 and 1.5 FTE Positions from the Occupational Therapy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(10,000) from the Occupational Therapy Fund in FY 2019 for the removal of a one-time FY 2018 multi-function printer expenditure.

Shared Services Costs

The budget includes a decrease of \$(8,200) from the Occupational Therapy Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$14,800 from the Occupational Therapy Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes an increase of \$9,800 from the Occupational Therapy Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$4,000 for relocation costs. This appropriation is not displayed in the table above.

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

State Board of Dispensing Opticians

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	69,600	73,500	73,500
Employee Related Expenditures	28,300	29,000	28,300
Professional and Outside Services	500	1,000	1,000
Travel - In State	8,200	8,500	8,500
Travel - Out of State	1,900	2,000	2,000
Other Operating Expenditures	10,900	27,700	35,800
OPERATING SUBTOTAL	119,400	141,700	149,100^{1/}
SPECIAL LINE ITEMS			
Annual Leave Payout	0	14,000	0
AGENCY TOTAL	119,400	155,700	149,100
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Dispensing Opticians Fund	119,400	155,700	149,100
SUBTOTAL - Other Appropriated Funds	119,400	155,700	149,100
SUBTOTAL - Appropriated Funds	119,400	155,700	149,100
TOTAL - ALL SOURCES	119,400	155,700	149,100

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 Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$149,100 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$1,000 from the Board of Dispensing Opticians Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$5,800 from the Board of Dispensing Opticians Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes an increase of \$600 from the Board of Dispensing Opticians Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes no funding from the Board of Dispensing Opticians Fund in FY 2019 for the Annual Leave Payout line item. FY 2019 adjustments are as follows:

Eliminate Annual Leave Payout

The budget includes a decrease of \$(14,000) from the Board of Dispensing Opticians Fund in FY 2019 for the elimination of a one-time annual leave payout for the retiring Executive Director. The budget included an FY 2018 supplemental of \$14,000 for a one-time annual leave payout for the retiring Executive Director. *(Please see FY 2018 Supplemental section in Other Issues for more information.)*

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

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental of \$14,000 from the Board of Dispensing Opticians Fund for a one-time annual leave payout for the retiring Executive Director.

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$2,100 for relocation costs. This appropriation is not displayed in the table above.

State Board of Optometry

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	118,500	121,400	121,400
Employee Related Expenditures	39,900	45,000	44,200
Professional and Outside Services	300	500	10,500
Travel - In State	1,500	1,500	1,500
Travel - Out of State	2,700	3,500	3,500
Other Operating Expenditures	40,500	50,300	62,700
AGENCY TOTAL	203,400	222,200	243,800^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Optometry Fund	203,400	222,200	243,800
SUBTOTAL - Other Appropriated Funds	203,400	222,200	243,800
SUBTOTAL - Appropriated Funds	203,400	222,200	243,800
TOTAL - ALL SOURCES	203,400	222,200	243,800

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. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$243,800 and 2 FTE Positions from the Board of Optometry Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

One-Time Document Scanning

The budget includes a one-time increase of \$10,000 from the Board of Optometry Fund in FY 2019 for scanning and digitizing licensing documents.

Shared Services Costs

The budget includes an increase of \$1,700 from the Board of Optometry Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-licensing Operating Costs

The budget includes an increase of \$10,800 from the Board of Optometry Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes a decrease of \$(900) from the Board of Optometry Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$4,100 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Board of Osteopathic Examiners in Medicine and Surgery

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7.2	7.2	7.2
Personal Services	398,900	415,200	415,200
Employee Related Expenditures	157,500	176,600	173,500
Professional and Outside Services	123,700	158,700	158,700
Travel - In State	1,200	2,500	2,500
Travel - Out of State	7,700	5,500	5,500
Other Operating Expenditures	137,900	154,600	148,100
Equipment	20,800	0	0
AGENCY TOTAL	847,700	913,100	903,500 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund	847,700	913,100	903,500
SUBTOTAL - Other Appropriated Funds	847,700	913,100	903,500
SUBTOTAL - Appropriated Funds	847,700	913,100	903,500
TOTAL - ALL SOURCES	847,700	913,100	903,500

AGENCY DESCRIPTION — The agency licenses and regulates medical physicians who practice osteopathic medicine, a system of medical treatment that emphasizes the inter-relationship of the body's muscles, bones, and joints with other body systems as an adjunct to invasive and/or chemically-based treatment.

Operating Budget

The budget includes \$903,500 and 7.2 FTE Positions from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,600) from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

One-Time Relocation Costs

This agency received a one-time non-lapsing appropriation of \$16,400 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Parents Commission on Drug Education and Prevention

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 ESTIMATE
SPECIAL LINE ITEMS			
Prevention Education Program	300,000	0	0
AGENCY TOTAL	300,000	0	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Drug Treatment and Education Fund	300,000	0	0
SUBTOTAL - Other Appropriated Funds	300,000	0	0
SUBTOTAL - Appropriated Funds	300,000	0	0
Other Non-Appropriated Funds	3,946,100	5,207,800	5,207,800
TOTAL - ALL SOURCES	4,246,100	5,207,800	5,207,800

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.

Arizona State Parks Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0 ^{1/}
Personal Services	4,344,000	4,842,800	4,999,300
Employee Related Expenditures	1,975,100	2,517,500	2,565,700
Professional and Outside Services	551,500	53,000	59,000
Travel - In State	1,600	18,300	18,300
Other Operating Expenditures	3,936,700	3,883,600	4,054,200
Equipment	425,200	829,200	829,200
OPERATING SUBTOTAL	11,234,100	12,144,400	12,525,700 ^{2/}
SPECIAL LINE ITEMS			
Arizona Trail Fund	150,000	0	0
Kartchner Caverns State Park	1,954,300	2,257,100	2,245,700
AGENCY TOTAL	13,338,400	14,401,500	14,771,400 ^{3/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	13,338,400	14,401,500	14,771,400
SUBTOTAL - Other Appropriated Funds	13,338,400	14,401,500	14,771,400
SUBTOTAL - Appropriated Funds	13,338,400	14,401,500	14,771,400
Other Non-Appropriated Funds	10,953,600	14,878,400	14,628,400
Federal Funds	4,322,900	4,827,100	4,827,100
TOTAL - ALL SOURCES	28,614,900	34,107,000	34,226,900

AGENCY DESCRIPTION — The Arizona State Parks Board (ASPB) 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 \$12,525,700 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Rockin' River Ranch State Park Operating Funding

The budget includes an increase of \$200,000 from the State Parks Revenue Fund in FY 2019 to fund 6 months of operation for Rockin' River Ranch State Park, which is scheduled to open mid-FY 2019. The increase will fund a park ranger, assistant manager and 2 seasonal staff, as well as utilities, equipment and repairs. The staff will be hired using the agency's existing FTE Position authority.

The Joint Committee on Capital Review (JCCR) favorably reviewed ASPB's \$4,000,000 expenditure plan for Rockin' River Ranch State Park in September 2017. Located in Camp Verde, the park will include tent and group camping, river access points, a boat launch area, walking trails, picnic areas and wildlife viewing.

At the time, ASPB planned to evaluate contractor bids beginning in January 2018, begin construction in March 2018, complete construction in November 2018, and open the park to the public in December 2018. As of May 2018, however, no construction contract has been issued. ASPB and the US Forest Service are working towards compliance with the National Environmental Protection Act (NEPA) for an entry road on federal land. Upon

^{1/} Includes 35.8 OF FTE Positions funded from Special Line Items in FY 2019.

^{2/} All Other Operating Expenditures include \$26,000 from the State Parks Revenue Fund for Fool Hollow State Park revenue sharing. If receipts to Fool Hollow exceed \$260,000 in FY 2019, an additional 10% of this increase of Fool Hollow receipts is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 to meet the revenue sharing agreement with the City of Show Low and the United States Forest Service. (General Appropriation Act footnote)

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

awarding a construction contract, a JCCR provision requires the board to provide quarterly updates on the park's progress.

Cattail Cove State Park Operating Funding

The budget includes an increase of \$200,000 from the State Parks Revenue Fund in FY 2019 to fund 6 months of operation for Cattail Cove State Park, which is scheduled to complete redevelopment mid-FY 2019. The increase will fund 5 park rangers, as well as utilities, equipment and repairs. The staff will be hired using the agency's existing FTE Position authority.

The JCCR favorably reviewed ASPB's \$6,400,000 expenditure plan for the Cattail Cove State Park redevelopment in September 2016. Located on the shore of Lake Havasu, the improved park will include a renovated marina and boat ramp, a new restaurant operated by a concessionaire, 100 refurbished camping sites and the addition of 30 cabins.

Statewide Adjustments

The budget includes a decrease of \$(18,700) from the State Parks Revenue Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Kartchner Caverns State Park

The budget includes \$2,245,700 and 35.8 FTE Positions from the State Parks Revenue Fund in FY 2019 for Kartchner Caverns State Park. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(11,400) from the State Parks Revenue Fund in FY 2019 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

Additional Legislation

Operating Funding

As session law, the FY 2019 Environment Budget Reconciliation Bill (Laws 2018, Chapter 280) continues to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs in FY 2019.

Capital Projects

The FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277) includes a combined \$7,500,000 from the State Parks Revenue Fund for 3 ASPB capital appropriations. This amount is available for use through the end of FY 2020. *(Please see the Capital Outlay ADOA Building System section for more information.)*

Status of Parks

As of May 2018, 29 state parks are open to the public:

- Twenty-two 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, Homolovi Ruins, Jerome, Kartchner Caverns, Lake Havasu, Lost Dutchman, Lyman Lake, Oracle, Patagonia Lake, Picacho Peak, Roper Lake, River Island, Slide Rock, Tombstone Courthouse, and Tonto Natural Bridge).
- Six open parks are funded and operated through agreements between the State Parks Board and local governments (Riordan Mansion, Boyce Thompson Arboretum, McFarland, Tubac Presidio, Yuma Territorial Prison, and Colorado River State Historic Park, which was formerly named Yuma Crossing). Partnerships originated from instances where a local government operates a state park that may have otherwise stopped operation due to insufficient state resources. Local governments operate and retain revenues from these parks, although ASPB retains annual pass revenue from Boyce Thompson State Park.
- One open park receives minimal funding through agreements to fund part-time staff (Red Rock).

(Please see Table 1 for more information.)

Table 1

Arizona State Parks Visitation and Revenue Growth ^{1/}

Park	Visitation			Revenue		
	FY 16	FY 17	% Change	FY 16	FY 17	% Change
Alamo Lake	40,300	41,500	3.0%	\$ 305,000	\$ 336,000	10.2%
Boyce Thompson	84,200	93,100	10.6%	11,400	14,300	25.4%
Buckskin Mountain ^{2/}	96,900	100,100	3.3%	713,900	862,300	20.8%
Catalina	181,000	207,300	14.5%	1,190,100	1,311,900	10.2%
Cattail Cove	58,100	93,200	60.4%	573,400	617,800	7.7%
Colorado River	15,300	14,600	(4.6)%	-	-	-
Dead Horse Ranch	162,400	163,700	0.8%	1,022,400	1,138,100	11.3%
Fool Hollow Lake	96,100	110,500	15.0%	653,800	824,000	26.0%
Fort Verde	10,800	9,800	(9.3)%	51,500	51,600	0.2%
Granite Mountain ^{3/}	-	12,100	NA	-	-	-
Homolovi	21,200	24,400	15.1%	112,500	143,000	27.1%
Jerome	47,600	45,000	(5.5)%	268,200	288,200	7.5%
Kartchner	157,800	158,600	0.5%	2,561,400	2,617,500	2.2%
Lake Havasu	440,700	498,100	13.0%	1,499,700	1,786,500	19.1%
Lost Dutchman	159,800	176,300	10.3%	890,500	1,009,100	13.3%
Lyman Lake	10,300	12,900	25.2%	120,300	136,300	13.3%
McFarland	8,900	7,700	(13.5)%	-	-	-
Oracle	6,900	9,500	37.7%	16,700	22,000	31.7%
Park Store	NA	NA	NA	59,100	79,400	34.3%
Patagonia Lake	208,500	221,500	6.2%	1,126,900	1,285,500	14.1%
Picacho Peak	80,100	87,100	8.7%	376,200	418,100	11.1%
Red Rock	59,800	75,600	26.4%	396,900	491,400	23.8%
Riordan Mansion	23,900	25,200	5.4%	-	-	-
Roper Lake	68,200	72,900	6.9%	386,800	453,800	17.3%
Slide Rock	399,000	440,600	10.4%	1,493,900	1,565,600	4.8%
Tombstone	46,600	49,800	7.1%	-	65,900	NA
Tonto Natural Bridge	123,400	115,600	(6.3)%	707,600	747,100	5.6%
Tubac Presidio	10,900	9,100	(16.5)%	-	-	-
Yuma Prison	63,000	65,700	4.5%	-	-	-
Credit Card Fees	NA	NA	NA	(254,500)	(314,000)	23.4%
Total	2,681,700	2,941,500	9.7%	\$14,283,700	\$15,951,400	11.7%

^{1/} ASPB does not receive revenues from certain partnership parks, including McFarland, Riordan Mansion, Tubac Presidio, Colorado River, and Yuma Prison. ASPB receives only annual pass revenue from Boyce Thompson.

^{2/} Includes visitation and revenue figures for River Island State Park.

^{3/} Granite Mountain Hotshots Memorial State Park opened in FY 2017 and does not charge entrance fees.

State Personnel Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	110,100	125,000	125,000
Employee Related Expenditures	43,800	48,600	47,500
Professional and Outside Services	71,000	162,800	162,800
Travel - In State	600	2,400	2,400
Other Operating Expenditures	97,600	36,600	20,600
Equipment	0	2,700	2,700
AGENCY TOTAL	323,100	378,100	361,000 ^{1/}

FUND SOURCES

Other Appropriated Funds

Personnel Board Subaccount of the Personnel Division Fund	323,100	378,100	361,000
SUBTOTAL - Other Appropriated Funds	323,100	378,100	361,000
SUBTOTAL - Appropriated Funds	323,100	378,100	361,000
TOTAL - ALL SOURCES	323,100	378,100	361,000

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 \$361,000 and 3 FTE Positions from the Personnel Board Subaccount of the Personnel Division Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$600 from the Personnel Board Subaccount of the Personnel Division Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

Statewide Adjustments

The budget includes a decrease of \$(17,700) from the Personnel Board Subaccount of the Personnel Division Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

This agency received a one-time non-lapsing FY 2017 appropriation of \$3,900 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona State Board of Pharmacy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	19.0	19.0
Personal Services	1,200,600	1,227,300	1,227,300
Employee Related Expenditures	428,100	460,100	452,500
Professional and Outside Services	97,500	103,800	88,800
Travel - In State	45,200	45,200	45,200
Travel - Out of State	4,200	4,200	4,200
Other Operating Expenditures	295,000	295,000	322,000
Equipment	500	0	0
OPERATING SUBTOTAL	2,071,100	2,135,600	2,140,000
SPECIAL LINE ITEMS			
Annual Leave Payout	0	24,500	0
Prescriber Report Card	0	125,000	50,000
AGENCY TOTAL	2,071,100	2,285,100	2,190,000 ^{1/}

FUND SOURCES

Other Appropriated Funds

Arizona State Board of Pharmacy Fund	2,071,100	2,285,100	2,190,000
SUBTOTAL - Other Appropriated Funds	2,071,100	2,285,100	2,190,000
SUBTOTAL - Appropriated Funds	2,071,100	2,285,100	2,190,000
Other Non-Appropriated Funds	1,132,500	1,263,500	1,263,500
TOTAL - ALL SOURCES	3,203,600	3,548,600	3,453,500

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 \$2,140,000 and 19 FTE Positions from the Arizona State Board of Pharmacy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(15,000) from the Arizona State Board of Pharmacy Fund in FY 2019 for the elimination of one-time funding for a rule writer.

Statewide Adjustments

The budget includes an increase of \$19,400 from the Arizona State Board of Pharmacy Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes no funding in FY 2019 for annual leave payouts. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(24,500) from the Arizona State Board of Pharmacy Fund in FY 2019 for the elimination of a one-time annual leave payout for employee retirements.

Prescriber Report Card

The budget includes \$50,000 from the Arizona State Board of Pharmacy Fund in FY 2019 for the Prescriber Report Card program. FY 2019 adjustments are as follows:

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

Remove One-Time Funding

The budget includes a decrease of \$(75,000) from the Arizona State Board of Pharmacy Fund in FY 2019 for the elimination of one-time funding.

This line item funds the development of opioid prescriber report cards as part of the Controlled Substances Prescription Monitoring Program (CSPMP). The prescriber report cards include detailed information comparing a practitioner's history of prescribing controlled substances with peers in a similar practice.

Board of Physical Therapy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	205,600	200,800	200,800
Employee Related Expenditures	94,900	102,000	98,800
Professional and Outside Services	73,100	73,600	73,600
Travel - In State	500	1,500	1,500
Travel - Out of State	0	600	600
Other Operating Expenditures	56,700	66,400	121,200
Equipment	7,300	3,100	3,100
AGENCY TOTAL	438,100	448,000	499,600 ^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Physical Therapy Fund	438,100	448,000	499,600
SUBTOTAL - Other Appropriated Funds	438,100	448,000	499,600
SUBTOTAL - Appropriated Funds	438,100	448,000	499,600
TOTAL - ALL SOURCES	438,100	448,000	499,600

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 Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$499,600 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

One-Time Document Scanning

The budget includes a one-time increase of \$5,000 from the Board of Physical Therapy Fund in FY 2019 for scanning and digitizing licensing documents.

Shared Services Costs

The budget includes a decrease of \$(8,200) from the Board of Physical Therapy Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$41,600 from the Board of Physical Therapy Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes an increase of \$13,200 from the Board of Physical Therapy Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$8,400 for relocation costs. This appropriation is not displayed in the table above.

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

Arizona Pioneers' Home

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	106.3	106.3	106.3
Personal Services	3,527,700	3,550,000	3,550,000
Employee Related Expenditures	1,619,100	1,620,900	1,567,500
Professional and Outside Services	87,500	95,900	95,900
Travel - In State	24,600	26,700	26,700
Other Operating Expenditures	609,800	1,092,000	1,092,000
Equipment	19,400	20,100	151,900
OPERATING SUBTOTAL	5,888,100	6,405,600	6,484,000
SPECIAL LINE ITEMS			
Prescription Drugs	142,800	200,000	200,000
AGENCY TOTAL	6,030,900	6,605,600	6,684,000 ^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Miners' Hospital for Miners with Disabilities Land Fund	1,972,500	2,057,700	2,178,800
State Charitable Fund	4,058,400	4,547,900	4,505,200
SUBTOTAL - Other Appropriated Funds	6,030,900	6,605,600	6,684,000
SUBTOTAL - Appropriated Funds	6,030,900	6,605,600	6,684,000
Other Non-Appropriated Funds	26,800	6,200	6,200
TOTAL - ALL SOURCES	6,057,700	6,611,800	6,690,200

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 \$6,484,000 and 106.3 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
Miners' Hospital for Miners with Disabilities Land Fund	\$2,178,800
State Charitable Fund	4,305,200

FY 2019 adjustments are as follows:

One-Time Mobility Equipment Purchase

The budget includes an increase of \$131,800 from the Miners' Hospital for Miners with Disabilities Fund in FY 2019 for a one-time purchase of mobility assistance equipment, including ceiling lift systems, geriatric beds, and wheelchair restraints.

Statewide Adjustments

The budget includes a decrease of \$(53,400) in FY 2019 for statewide adjustments. This amount consists of:

Miners' Hospital for Miners with Disabilities Land Fund	(10,700)
State Charitable Fund	(42,700)

(Please see the Agency Detail and Allocations section.)

Prescription Drugs

The budget includes \$200,000 from the State Charitable Fund in FY 2019 for Prescription Drugs. This amount is unchanged from FY 2018.

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

Capital Projects

The FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277) appropriates \$600,000 from the Miners' Hospital for Miners with Disabilities Land Fund in FY 2019 for capital improvement projects. The agency plans to spend the appropriation on window replacements, renovation of an elevator enclosure, bathroom remodels, water system improvements, replacement of the fire alarm system, and cemetery road repairs. The bill requires the agency to submit the scope, purpose, and estimated cost of the projects to the Joint Committee on Capital Review prior to spending the appropriation.

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 has 2 land trust funds, the Miners' Hospital Fund and the State Charitable Fund.

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 2018 ending balance of \$6,360,300, compared to an FY 2019 appropriation of \$2,178,800. Monies in the Miners' Hospital Fund may only be used for purposes related to the Pioneers' Home.

The JLBC Staff projects that the State Charitable Fund will have an FY 2018 ending balance of \$6,576,700, compared to an FY 2019 appropriation of \$4,505,200. The State Charitable Fund may be used for any charitable purpose within a state institution.

State Board of Podiatry Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	72,100	78,000	78,000
Employee Related Expenditures	29,800	29,800	29,600
Professional and Outside Services	2,100	5,500	5,500
Travel - In State	2,200	2,200	2,200
Travel - Out of State	1,500	1,500	1,500
Other Operating Expenditures	27,700	32,700	45,100
AGENCY TOTAL	135,400	149,700	161,900 ^{1/}

FUND SOURCES

Other Appropriated Funds

Podiatry Fund	135,400	149,700	161,900
SUBTOTAL - Other Appropriated Funds	135,400	149,700	161,900
SUBTOTAL - Appropriated Funds	135,400	149,700	161,900
TOTAL - ALL SOURCES	135,400	149,700	161,900

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 Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$161,900 and 1 FTE Position from the Podiatry Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

E-Licensing Operating Costs

The budget includes an increase of \$10,400 from the Podiatry Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes an increase of \$1,800 from the Podiatry Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$3,800 for relocation costs. This appropriation is not displayed in the table above.

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

Commission for Postsecondary Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0 ^{1/}
Personal Services	85,000	118,900	118,900
Employee Related Expenditures	30,800	58,700	54,800
Other Operating Expenditures	22,100	13,000	13,000
Equipment	700	0	0
OPERATING SUBTOTAL	138,600	190,600	186,700
SPECIAL LINE ITEMS			
Arizona College and Career Guide	5,400	21,300	21,300 ^{2/}
Arizona Minority Educational Policy Analysis Center	24,500	100,000	100,000 ^{2/}
Arizona Teacher Student Loan Program	176,000	426,000	426,000 ^{3/}
College-Readiness Examination Pilot Program	0	235,000	0
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500 ^{4/}
Twelve Plus Partnership	8,700	130,500	130,500 ^{2/}
AGENCY TOTAL	2,672,700	3,422,900	3,184,000 ^{5/6/}
FUND SOURCES			
General Fund	1,396,800	1,881,800	1,646,800
<u>Other Appropriated Funds</u>			
Postsecondary Education Fund	1,275,900	1,541,100	1,537,200
SUBTOTAL - Other Appropriated Funds	1,275,900	1,541,100	1,537,200
SUBTOTAL - Appropriated Funds	2,672,700	3,422,900	3,184,000
Other Non-Appropriated Funds	745,600	913,700	913,700
Federal Funds	0	129,700	129,700
TOTAL - ALL SOURCES	3,418,300	4,466,300	4,227,400

AGENCY DESCRIPTION — The Commission for Postsecondary Education reviews and recommends higher education policies, while providing a discussion forum for public and private postsecondary educational institutions and their stakeholders on issues of mutual interest. The 16 commissioners are authorized to administer certain federal and state student financial aid programs.

Operating Budget

The budget includes \$186,700 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(3,900) from the Postsecondary Education Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} Includes 0.5 OF FTE Positions funded from Special Line Items in FY 2019.

^{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 2019. 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/} 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 monies that equals the amount of monies provided by the state to the institution for the Leveraging Educational Assistance Partnership. Administrative expenses incurred by the Commission for Postsecondary Education shall be paid from institutional matching monies and may not exceed 12% of the funds in FY 2019. (General Appropriation Act footnote)

^{5/} Any unencumbered balance remaining in the Postsecondary Education Fund established by A.R.S § 15-1853 on June 30, 2018, 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)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Arizona College and Career Guide

The budget includes \$21,300 from the Postsecondary Education Fund in FY 2019 for the Arizona College and Career Guide line item. This amount is unchanged from FY 2018.

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 2019 for the Arizona Minority Educational Policy Analysis Center (AMEPAC) line item. These amounts are unchanged from FY 2018.

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 2019 for the Arizona Teacher Student Loan Program. This amount is unchanged from FY 2018.

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 budget includes no funding in FY 2019 for a College Readiness Examination Pilot Program. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The budget includes a decrease of \$(235,000) from the General Fund in FY 2019. The FY 2018 K-12 Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 304) appropriated this amount from the General Fund in FY 2018 for a one-year College-Readiness Examination Pilot Program. The program is scheduled to terminate on January 1, 2019.

The FY 2018 K-12 BRB required 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 exams were provided free of charge, nationally recognized, and included tests in English, reading, mathematics and science.

The Commission for Postsecondary Education is required to submit a report by November 30, 2018 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 2019. This amount consists of:

	FY 2019
General Fund	\$1,220,800
Postsecondary Education Fund	1,098,700

These amounts are unchanged from FY 2018.

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.

In FY 2017, awards were provided through 36 postsecondary institutions. Of the total funding distributed, 32% went to public universities, 53% to community colleges, and 15% to private institutions.

Twelve Plus Partnership

The budget includes \$130,500 and a 0.3 FTE Position from the Postsecondary Education Fund in FY 2019 for the Twelve Plus Partnership (TPP). These amounts are unchanged from FY 2018.

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 9 borrowers are currently being tracked in the repayment program or will be placed in repayment once located. The commission has turned over 59 of these loans to the Attorney General for collections.

The commission may use PFAP funds to administer PPEG collections. At the end of FY 2017, the PFAP Fund had a balance of \$1,000. The commission reported it expects to use at least \$1,500 of PFAP funds in FY 2019 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 4,466 students awarded PPEG forgivable loans since its inception in 2007. Of those recipients, 3,340 graduated with a baccalaureate degree and 13 are working to complete their degree. Of the remaining, 667 have been referred to the Attorney General, 302 are in repayment, 115 have paid in full, 17 have been forgiven, 8 are deceased, and 4 are in deferment.

Prior to Chapter 243, the PPEG program was known as the Postsecondary Education Program (PEG).

Arizona Teacher Student Loan Program

There have been 289 students awarded Arizona Teacher Student Loan program forgivable loans since its inception

in FY 2007. Of those recipients, 101 completed the loan requirements and had their loan forgiven, 10 have paid their loan balance in full, 29 are currently in repayment, 22 have had their loans referred to the Attorney General, 59 have finished 5-year tracking, and 68 will require tracking for up to 15 years to ensure they meet the promissory note obligations and to determine retention rates.

PDTS

There have been 254 students awarded PDTS forgivable loans. Of those recipients, 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	34,308,900	25,485,000	25,485,000
TOTAL - ALL SOURCES	34,308,900	25,485,000	25,485,000

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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	226,000	234,500	234,500
Employee Related Expenditures	80,000	90,300	89,000
Professional and Outside Services	16,300	27,400	27,400
Travel - In State	300	0	0
Travel - Out of State	1,900	2,000	2,000
Other Operating Expenditures	36,300	40,200	59,100
Equipment	500	5,800	5,800
OPERATING SUBTOTAL	361,300	400,200	417,800^{1/}
SPECIAL LINE ITEMS			
Annual Leave Payout	0	20,800	0
AGENCY TOTAL	361,300	421,000	417,800
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board for Private Postsecondary Education Fund	361,300	421,000	417,800
SUBTOTAL - Other Appropriated Funds	361,300	421,000	417,800
SUBTOTAL - Appropriated Funds	361,300	421,000	417,800
Other Non-Appropriated Funds	420,500	304,500	304,500
TOTAL - ALL SOURCES	781,800	725,500	722,300

AGENCY DESCRIPTION — The board licenses and regulates 238 private postsecondary education institutions that service approximately 398,540 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 \$417,800 and 4 FTE Positions from the Board for Private Postsecondary Education Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$4,100 from the Board for Private Postsecondary Education Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$9,300 from the Board for Private Postsecondary Education Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes an increase of \$4,200 from the Board for Private Postsecondary Education Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes no funding from the Board for Private Postsecondary Education Fund in FY 2019 for an annual

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

leave payout for the retiring Executive Director. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(20,800) from the Board for Private Postsecondary Education Fund in FY 2019 for an annual leave payout for the retiring Executive Director. The Executive Director is expected to retire by the end of FY 2018.

Other Issues

<i>One-Time Relocation Costs</i>

The agency received a one-time non-lapsing FY 2017 appropriation of \$10,200 for relocation costs. This appropriation is not displayed in the table above.

State Board of Psychologist Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	228,900	237,100	237,100
Employee Related Expenditures	93,100	99,600	97,800
Professional and Outside Services	31,700	44,600	44,600
Travel - In State	3,300	5,400	5,400
Travel - Out of State	5,000	5,000	5,000
Other Operating Expenditures	75,500	88,900	105,100
Equipment	8,900	0	0
AGENCY TOTAL	446,400	480,600	495,000^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Psychologist Examiners Fund	446,400	480,600	495,000
SUBTOTAL - Other Appropriated Funds	446,400	480,600	495,000
SUBTOTAL - Appropriated Funds	446,400	480,600	495,000
TOTAL - ALL SOURCES	446,400	480,600	495,000

AGENCY DESCRIPTION — The board licenses and regulates psychologists and behavior analysts. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$495,000 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$2,400 from the Board of Psychologist Examiners Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$14,900 from the Board of Psychologist Examiners Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes a decrease of \$(2,900) from the Board of Psychologist Examiners Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$7,900 for relocation costs. This appropriation is not displayed in the table above.

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

Department of Public Safety

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,956.7	1,945.7	1,966.7 ^{1/}
Personal Services	102,135,200	108,459,100	109,775,300
Employee Related Expenditures	82,830,400	91,074,400	94,283,100
Professional and Outside Services	3,400,200	2,459,700	2,491,200
Travel - In State	381,500	450,600	481,200
Travel - Out of State	448,400	337,900	337,900
Other Operating Expenditures	31,175,800	28,502,100	29,237,600
Equipment	5,612,000	7,869,100	9,029,200
OPERATING SUBTOTAL	225,983,500	239,152,900	245,635,500
SPECIAL LINE ITEMS			
ACTIC	1,140,200	1,450,000	1,450,000
Border Strike Task Force Ongoing	6,480,100	7,059,300	7,102,500
Border Strike Task Force One-Time	14,332,600	0	0
Border Strike Task Force Local Support	766,400	1,261,700	1,261,700 ^{2/3/4/}
GIITEM	21,744,200	22,254,400	22,410,800 ^{5/6/}
GIITEM Subaccount	2,227,400	2,390,000	2,395,800
Law Enforcement Officer Virtual Training	291,500	0	0
Peace Officer Training Equipment	0	0	3,053,000 ^{7/}
Public Safety Equipment	2,783,300	2,890,000	2,890,000
Motor Vehicle Fuel	3,634,300	5,454,600	5,454,600
Pharmaceutical Diversion and Drug Theft Task Force	0	0	758,100
Civil Air Patrol	150,000	150,000	150,000
Camera IT Infrastructure	0	500,000	0
Sexual Assault Kit Testing	499,700	1,200,000	0
Trooper Vehicle In-Car Cameras	0	500,000	0
AGENCY TOTAL	280,033,200	284,262,900	292,562,000 ^{8/9/}
FUND SOURCES			
General Fund	114,214,600	109,614,200	104,241,700
<u>Other Appropriated Funds</u>			
Automated Fingerprint Identification System Fund	896,700	2,919,700	0
Automobile Theft Authority Fund	3,000,000	0	0
Concealed Weapons Permit Fund	1,494,900	1,420,000	3,554,700
Crime Laboratory Assessment Fund	870,200	870,300	0
Crime Laboratory Operations Fund	13,218,100	13,611,300	0
Criminal Justice Enhancement Fund	2,860,500	2,873,400	2,927,300
Deoxyribonucleic Acid (DNA) Identification System Fund	4,637,300	4,970,100	0
DPS Forensics Fund	0	0	22,495,800
Drug and Gang Prevention Resource Center Fund	1,000,000	0	758,100
Fingerprint Clearance Card Fund	0	700,000	1,502,500
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,227,400	2,527,700	2,540,700
Highway Patrol Fund	24,113,200	25,474,400	116,321,400
Highway User Revenue Fund	95,908,400	99,398,700	15,508,700
Motor Vehicle Liability Insurance Enforcement Fund	0	0	1,250,000
Motorcycle Safety Fund	0	205,000	205,000
Parity Compensation Fund	2,129,400	3,422,300	3,451,500
Peace Officer Training Equipment Fund	0	0	3,053,000
Public Safety Equipment Fund	2,783,300	3,893,700	2,893,700

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
Risk Management Revolving Fund	1,263,700	1,314,200	1,345,300
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,551,800	1,634,400	1,643,500
State Aid to Indigent Defense Fund	561,900	700,000	700,000
State Highway Fund	7,301,800	8,713,500	8,169,100
SUBTOTAL - Other Appropriated Funds	165,818,600	174,648,700	188,320,300
SUBTOTAL - Appropriated Funds	280,033,200	284,262,900	292,562,000
Other Non-Appropriated Funds	36,969,700	38,854,000	35,168,800
Federal Funds	47,100,900	77,079,200	63,247,700
TOTAL - ALL SOURCES	364,103,800	400,196,100	390,978,500

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 \$245,635,500 and 1,789.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

General Fund **FY 2019**
\$68,575,800

Concealed Weapons Permit Fund	3,554,700
Criminal Justice Enhancement Fund (CJEF)	2,793,000
DPS Forensics Fund	22,495,800
Fingerprint Clearance Card Fund	1,502,500
Highway Patrol Fund	115,774,600
Highway User Revenue Fund (HURF)	14,871,000
Motorcycle Safety Fund	205,000
Motor Vehicle Liability Insurance Enforcement Fund	1,250,000

1/ Includes 176.8 GF FTE Positions funded from Special Line Items in FY 2019.

2/ 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)

3/ On or before September 1, 2018, the Department of Public Safety shall submit an expenditure plan for the Border Strike Task Force Local Support line item to the Joint Legislative Budget Committee and to the Governor's Office of Strategic Planning and Budgeting. (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 prosecuting and imprisoning individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes. (General Appropriation Act footnote)

5/ Of the \$22,410,800 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. 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 \$22,410,800 appropriated to the GIITEM line item, \$10,356,900 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/ Laws 2018, Chapter 312 appropriated \$3,053,000 from the Peace Officer Equipment Training Fund in FY 2019 for DPS employee overtime pay, 10 virtual firing ranges, 3 virtual training simulators, and to pay for maintenance and service of the 7 existing simulators.

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, 2019 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)

Parity Compensation Fund	3,451,500
Public Safety Equipment Fund	3,700
Risk Management Revolving Fund	1,345,300
Safety Enforcement and Transportation Infrastructure Fund (SETIF) DPS Subaccount	1,643,500
State Highway Fund	8,169,100

FY 2019 adjustments are as follows:

One-Time AZPOST Funding Increase

The budget includes an increase of \$837,000 from the Concealed Weapons Permit Fund in FY 2019 for the Arizona Peace Officers Standards and Training Board (AZPOST) operating costs. The FY 2019 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 278) allows for the fund to be used for this purpose in FY 2019.

AZ POST is funded through the DPS budget and provides curriculum and standards for all certified law enforcement training facilities (8 regional facilities and 4 community college academies). This includes state correctional officer training curriculum and standards for corrections officers. AZPOST also performs compliance audits, police officer misconduct investigations, and advanced in-service training.

Fund Shift

The budget includes a decrease of \$(400,000) in FY 2019 for a fund shift. This amount consists of:

General Fund	(3,750,000)
Concealed Weapons Permit Fund	1,300,000
Fingerprint Clearance Card Fund	800,000
Motor Vehicle Liability Insurance Enforcement Fund	1,250,000

The budget assumes that the department can make up the \$(400,000) decrease with excess capacity in the DPS Administration Fund, a non-appropriated fund.

HURF Reduction/Highway Safety Fee

The budget includes a decrease of \$(83,890,000) in FY 2019 from the Highway User Revenue Fund (HURF) and a corresponding increase of \$83,890,000 in FY 2019 from the Highway Patrol Fund for a fund shift.

Laws 2018, Chapter 265 establishes a new highway safety fee to be charged on car registrations and set by the Director of the Arizona Department of Transportation (ADOT) at a level to fund 110% of the highway patrol budget. The new fee will go into effect on January 1, 2019 and is expected to generate total revenue of \$90.8 million in FY 2019. Beginning in FY 2020 the fee is expected to raise revenue of \$181.6 million annually, at which point the HURF appropriation to DPS would be fully eliminated.

(For more detail see Highway Safety Fee/HURF Shift in the Other Issues section.)

Additional Maricopa County Troopers

The budget includes an increase of \$1,444,000 and 6 FTE Positions from the Highway Patrol Fund in FY 2019 for additional highway patrol troopers. The new troopers will patrol during the "Night Watch" shift from 8 p.m. to 6 a.m. in the Maricopa County metropolitan area.

Additional Southern Arizona Troopers

The budget includes an increase of \$2,924,100 and 12 FTE Positions from the Highway Patrol Fund in FY 2019 to expand the highway patrol coverage in southern Arizona.

Retirement Adjustment

The budget includes an increase of \$3,068,200 in FY 2019 for a higher employer retirement contribution rate. This amount consists of:

General Fund	115,500
Concealed Weapons Permit Fund	1,800
CJEF	41,400
DPS Forensics Fund	45,800
Highway Patrol Fund	2,637,300
Parity Compensation Fund	44,800
Risk Management Revolving Fund	22,900
SETIF DPS Subaccount	25,700
State Highway Fund	133,000

In FY 2019, the DPS employer contribution rate for the Public Safety Personal Retirement System will rise from 91.97% to 95.72%. Additionally, the adjustment includes monies for the statewide increase in the Arizona State Retirement System (ASRS). *(Please see the Consolidated Retirement Report for more information.)*

DPS Forensics Fund Shift

The budget includes an increase of \$22,369,300 from the DPS Forensics Fund and a corresponding decrease of \$(22,369,300) from Other Appropriated Funds in FY 2019 for a DPS Forensics Fund shift. These amounts consist of:

DPS Forensics Fund	22,369,300
AFIS Fund	(2,917,600)
Crime Laboratory Assessment Fund (CLAF)	(870,300)
Crime Lab Operations Fund (CLOF)	(13,611,300)
DNA Identification System Fund	(4,970,100)

The FY 2018 Criminal Justice BRB established the DPS Forensics Fund by eliminating and combining the purposes and revenues for the Automated Fingerprint Identification System (AFIS) Fund, DNA Identification System Fund, Crime Laboratory Assessment Fund (CLAF),

and Crime Laboratory Operations Fund (CLOF). The BRB sets an effective date of July 1, 2018 for these changes.

Statewide Adjustments

The budget includes a decrease of \$(1,390,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(482,000)
AFIS Fund	(2,100)
Concealed Weapons Permit Fund	(4,100)
CJEF	12,500
Fingerprint Clearance Card Fund	2,500
DPS Forensics Fund	80,700
Highway Patrol Fund	(296,800)
Parity Compensation Fund	(15,600)
Risk Management Revolving Fund	8,200
SETIF DPS Subaccount	(16,600)
State Highway Fund	(677,400)

(Please see the Agency Detail and Allocations section.)

ACTIC

The budget includes \$1,450,000 in FY 2019 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 2018.

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 \$7,102,500 and 37 FTE Positions from the General Fund in FY 2019 for the Border Strike Task Force (BSTF). FY 2019 adjustments are as follows:

Retirement Adjustment

The budget includes an increase of \$73,800 from the General Fund in FY 2019 for a higher employer retirement contribution rate. This adjustment is primarily for the PSPRS rate increase, but also includes funding for ASRS.

Statewide Adjustments

The budget includes a decrease of \$(30,600) from the General Fund in FY 2019 for statewide adjustments.

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 Local Support

The budget includes \$1,261,700 from the General Fund in FY 2019 for the costs of BSTF Local Support. These amounts are unchanged from FY 2018.

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, the budget requires that \$761,700 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 June 20, 2017 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 the Cochise, Pima, and Santa Cruz 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.

A General Appropriation Act footnote has required DPS to submit an expenditure plan for this line item to JLBC for review. The budget changes this requirement to require DPS to submit a report on planned FY 2019 expenditures by September 1, 2018.

GIITEM

The budget includes \$22,410,800 and 136.8 FTE Positions in FY 2019 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). This amount consists of:

General Fund	22,017,500
GIITEM Border Security and Law Enforcement Subaccount	144,900
Highway Patrol Fund	248,400

FY 2019 adjustments are as follows:

Retirement Adjustment

The budget includes an increase of \$253,600 in FY 2019 for an increase in the employer retirement contribution rate. This amount consists of:

GIITEM Border Security and Law Enforcement Subaccount	5,200
Highway Patrol Fund	248,400

This increase is primarily for the PSPRS rate increase, but also includes funding for other retirement increases.

One-Time Capital Funding Shift

The budget includes no increase from the General Fund in FY 2019. The FY 2018 budget reduced the local gang and immigration enforcement grants allocation from \$2,603,400 to \$1,403,400. A footnote in the 2018 General Appropriation Act stated that it is the intent of the Legislature to restore the \$1,200,000 to the local gang and immigration enforcement grant portion of the GIITEM line in FY 2019. The FY 2019 budget does not restore this funding to GIITEM. Instead the FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277) redirects this funding to pay for new remote housing units for highway patrol troopers. *(Please see the Capital Outlay section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(97,200) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(99,200)
GIITEM Border Security and Law Enforcement Subaccount	2,000

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$10,050,500 for gang enforcement, investigation, and interdiction; 2) \$10,356,900 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.

Permanent law prohibits Maricopa County from receiving any monies from the fund and allocates \$500,000 in revenues to Pinal County. The FY 2018 Criminal Justice BRB allocated \$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. *(Please see the FY 2018 Appropriations Report for more information.)* The FY 2019 Criminal Justice BRB continues these same allocations in FY 2019.

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 4 in the Other Issues section for more information on actual expenditures.)*

GIITEM Subaccount

The budget includes \$2,395,800 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2019 for the GIITEM Subaccount, to be used for equipment and supplies for border security. FY 2019 adjustments are as follows:

Retirement Adjustment

The budget includes an increase of \$5,800 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2019 for a higher employer retirement contribution rate. This adjustment is primarily for the PSPRS rate increase, but also includes funding for ASRS.

The GIITEM Border Security and Law Enforcement Subaccount receives \$4 of a \$13 criminal fee. These revenues are estimated to total \$1,906,400 in FY 2019. 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.

At its June 20, 2017 meeting, the JLBC gave a favorable review to the proposed GIITEM Subaccount expenditure plan for FY 2018. The plan includes \$515,000 for detention liaison officers, \$475,000 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 (\$70,000 per county). At the September 19, 2017 JLBC Meeting, the Committee gave a favorable review to a revised distribution for the county sheriff allocation, with \$350,000 going to each Cochise, Santa Cruz and Yuma counties. *(Please see Table 3 in the Other Issues section for more information on actual expenditures.)*

Peace Officer Training Equipment

The budget includes \$3,053,000 from the Peace Officer Training Equipment Fund in FY 2019 for peace officer training equipment. FY 2019 adjustments are as follows:

One-Time FY 2019 Appropriations

Laws 2018, Chapter 312 appropriated a one-time appropriation of \$3,053,000 from the Peace Officer Training Equipment Fund in FY 2019. This amount includes the following non-lapsing appropriations:

1. The first \$500,000 in revenue is appropriated to DPS for employee overtime pay;
2. The next \$2,300,000 in revenue is appropriated to DPS for 10 virtual firing ranges, 3 virtual training simulators (one for the Tucson Police Department, one for the Pinal County Sheriff's Office, and one for the Yuma County Sheriff's Office);
3. The next \$203,000 in revenue is appropriated to DPS to maintain and service the 7 existing virtual training simulators;
4. The next \$50,000 in revenue is appropriated to the Governor's Office of Highway Safety to provide public service announcements that educate drivers on how to act when stopped by a peace officer.

These appropriations will be made in the above order as revenue is received in the fund. Chapter 312 also includes a final \$20,000 appropriation to the Supreme Court to cover the programming costs of implementing the new fees. *(Please see the Supreme Court section for more information.)*

The legislation increases the assessment on criminal and civil traffic violations by \$4 and the defensive driving school fee by \$4. This new revenue is to be deposited into the new Peace Officer Training Equipment Fund.

The fees take effect January 1, 2019 and it is estimated they will bring annual revenue of \$2,747,000. It is expected that some of these appropriations may not be funded until FY 2020 or FY 2021. Once these appropriations are completed, the new Peace Officer Training Equipment Advisory Commission will make

annual recommendations on how the funding should be spent.

The Peace Officer Training Equipment Fund is appropriated and may only be used for peace officer equipment.

Public Safety Equipment

The budget includes \$2,890,000 from the Public Safety Equipment Fund in FY 2019 to equip DPS officers. This amount is unchanged from FY 2018.

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 for DPS officers.

Motor Vehicle Fuel

The budget includes \$5,454,600 in FY 2019 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 2018.

The Motor Vehicle Fuel line item centralizes monies appropriated to DPS for motor vehicle fuel.

Pharmaceutical Diversion and Drug Theft Task Force

The budget includes \$758,100 and 3 FTE Positions from the Drug and Gang Prevention Resource Center Fund in FY 2019 for the Pharmaceutical Diversion and Drug Theft Task Force. FY 2019 adjustments are as follows:

First-Year Funding

The budget includes an increase of \$758,100 and 3 FTE Positions from the Drug and Gang Prevention Resource

Center Fund to establish a Pharmaceutical Diversion and Drug Theft Task Force in DPS.

This line item funds a task force to combat the abuse and trafficking of prescription drugs and inappropriate prescriber behavior.

Civil Air Patrol

The budget includes \$150,000 from the General Fund in FY 2019 for funding of the Civil Air Patrol (CAP). This amount is unchanged from FY 2018.

This line item partially offsets the costs of operations and maintenance of aircraft used by CAP to aid in search and rescue and other emergency missions. *(Please see the FY 2018 Appropriations Report for more information.)*

Camera IT Infrastructure

The budget includes no funding from PSEF in FY 2019 for Camera IT Infrastructure. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from PSEF in FY 2019 to remove one-time FY 2018 funding for Camera IT Infrastructure.

The FY 2018 appropriation 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 no funding from the General Fund in FY 2019 for Sexual Assault Kit Testing. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,200,000) from the General Fund in FY 2019 to remove funding for sexual assault kits testing.

This line item provided 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.

DPS received \$500,000 in FY 2017 and \$1,200,000 in FY 2018 for Sexual Assault Kit Testing. DPS reported that in March 2017, 5,621 kits remained to be tested, 1,432 of which were unfunded. The FY 2018 funding was intended to test these remaining kits. According to DPS, the current number of kits to be tested is 3,875. DPS believes that current funding is sufficient to complete this testing. *(Please see the FY 2018 Appropriations Report for more information.)*

Trooper Vehicle In-Car Cameras

The budget includes no funding from PSEF in FY 2019 for Trooper Vehicle In-Car Cameras. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from PSEF in FY 2019 for Trooper Vehicle In-Car Cameras. The FY 2018 monies provided funding for DPS to purchase 75 in-car cameras to replace existing aging cameras in patrol and K-9 unit vehicles.

Other Issues

Long-Term Budget Impacts: HURF Funding

The budget reduces the DPS HURF appropriation from \$99.4 million to \$15.5 million in FY 2019. The budget also assumes the DPS HURF appropriation is eliminated in FY 2020. This funding is replaced by the new Highway Safety Fee *(see the Highway Safety Fee/HURF Shift section below for more information)*.

Recent budgets have held local governments mostly, then entirely harmless from the HURF appropriation to DPS. There were 2 components to this:

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" HURF 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 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 allocation from the previously-approved \$60.0 million to \$30.0 million. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continued this \$30.0 million allocation in FY 2018.

The second component of eliminating the HURF shift was first addressed on a one-time basis in the FY 2017 Revenue BRB. The legislation appropriated \$30.0 million in one-time FY 2017 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 allocation, 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 above allocations. *(Please see the Highway User Revenue Fund Analysis section of the Arizona Department of Transportation narrative for more information.)*

The FY 2018 Revenue BRB (Laws 2017, Chapter 312) continued the elimination of the HURF shift in FY 2018. The one-time FY 2017 \$30.0 million General Fund deposit was replaced by a FY 2018 appropriation of \$30.0 million from the Highway Expansion and Extension Loan Program (HELP) Fund. These monies were allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. This HELP Fund appropriation along with the permanent \$30.0 million distribution from FY 2015 held local governments harmless again in FY 2018.

The HELP Fund was originally designed to accelerate local road construction via short term loans. The fund, however, was no longer being used for that purpose and had a one-time balance of \$60 million.

The FY 2018 Revenue BRB appropriated \$30.0 million from the HELP Fund again in FY 2019 for local HURF. Along with the permanent \$30.0 million local HURF distribution, local governments were again to be held harmless in FY 2019. Because of the new Highway Safety Fee, the FY 2019 Revenue BRB (Laws 2018, Chapter 283) eliminates this FY 2019 HELP Fund appropriation. Instead, these monies are transferred to the General Fund.

The FY 2018 Revenue BRB also required \$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 have consolidated the ongoing \$30.0 million local distribution originated in the FY 2015 budget and the \$30.0 million local distributions designated in the FY 2017 through FY 2019 budgets. The FY 2019 Revenue BRB eliminates the FY 2020 requirement due to the new Highway Safety Fee.

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 1* reflects DPS expenditures from HURF and the State Highway Fund. *(Please see ADOT Capital section for more information on the HURF distribution formula.)*

Table 1
DPS 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
2019	15.5	8.2	23.7

Current statute limits the amount of HURF money that can be used for DPS at \$10 million. The FY 2019 Criminal Justice BRB sets this cap at \$16 million for FY 2019.

Highway Safety Fee/HURF Shift

Monies in HURF are used to fund state and local road construction. Roughly 50.5% of HURF revenue goes to state highway construction and 49.5% goes to cities and counties for local road construction.

In addition to road construction, HURF has been used for many years to pay for Highway Patrol costs in the DPS budget. As a result of this use, funding available for state and local road construction is effectively reduced.

Laws 2018, Chapter 265 establishes a new Highway Safety Fee to fund DPS's highway patrol budget, so that DPS would no longer be funded from HURF. Chapter 265 requires the Director of the Arizona Department of Transportation (ADOT) to set the fee on car registrations to fund 110% of the highway patrol budget for each fiscal year.

For FY 2018, DPS estimates Highway Patrol expenditures of \$160 million. The FY 2019 budget added an additional \$7 million in Highway Patrol expenditures over FY 2018 through new troopers and higher retirement contributions. The additional 10% required by Chapter 265 is \$16 million. As a result, the fee is expected to generate \$183 million annually starting in FY 2020. This new fee will be effective January 1, 2019 and is therefore expected to raise roughly half of that amount in FY 2019, or \$91 million.

As part of the FY 2019 budget, the new \$91 million in revenue permits:

- Funding \$7 million in new troopers.
- Elimination of \$84 million in HURF for DPS expenses. Half of this amount would otherwise go to the State Highway Fund. In FY 2019, it will instead be transferred to the General Fund via the Vehicle License Tax. The remaining \$42 million will go toward local HURF.
- Elimination of the \$30 million HELP Fund appropriation for local HURF. Those monies will instead be transferred to the General Fund.

In total:

- The General Fund will benefit by \$72 million - \$42 million from the VLT transfer and \$30 million from the HELP Fund transfer.
- Local HURF will benefit by \$12 million - \$42 million from the freed up DPS allocation less the loss of the \$(30) million HELP appropriation.

(Please see Table 2 below for more detail on the beneficiaries of the fee revenue in FY 2019.)

In FY 2020 the fee is expected to pay the complete cost of the highway patrol budget. As a result, current funding for highway patrol will be redirected. This includes:

- Elimination of a full year of \$99 million in HURF for DPS expenses, which will be redirected to state and local road construction.
- Elimination of \$21 million in General Fund for DPS expenses, which will serve as savings to the General Fund.
- Redirection of \$40 million in current Other Appropriated Funds being used for DPS expenses. This redirection is intended to benefit the General Fund, but the mechanism to achieve this objective has yet to be determined.
- Continued funding of the \$7 million in new troopers added in FY 2019.
- Elimination of the planned \$30 million in General Fund support for local HURF in FY 2020, which will serve as savings to the General Fund.
- Deposit of the excess \$16 million in Highway Safety Fee funds to the General Fund.

In total:

- The General Fund will benefit by \$107 million - \$21 million in DPS budget savings, \$40 million in redirected Other Fund monies, \$30 million from eliminating support of local HURF and \$16 million from excess Highway Safety Fees.
- Local HURF will benefit by \$19 million - \$49 million from the freed up full year of the DPS allocation less the loss of the \$(30) million HELP appropriation. This \$19 million reflects a net gain above the local HURF funding level if the normal distribution were in place.
- State roads will benefit by \$50 million from the freed up full year of the DPS allocation. This allows state road construction to receive its full amount of funding compared to when these monies were used for DPS operating expenses.

(Please see Table 3 below for more detail on the beneficiaries of the fee revenue in FY 2020.)

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
PSEF	\$0	\$22,000
Concealed Weapons Permit Fund	2,000,000	0
Fingerprint Clearance Card Fund	1,000,000	0
DPS Joint Fund	0	846,800

Additional Legislation

Budget Stabilization Fund Loan

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) authorizes DPS to use up to \$23,300,000 from the Budget Stabilization Fund (BSF) to provide temporary operating funding for cashflow purposes to fund the highway patrol until the new highway safety fee is implemented. Chapter 276 requires the BSF to be fully reimbursed by September 1, 2019.

Automation Projects Fund - Arizona Criminal Justice Information System

The budget includes an FY 2019 transfer of \$2,806,200 from the Highway Patrol Fund to the Arizona Department

of Administration for continuing upgrades to the Arizona Criminal Justice Information System (ACJIS). The FY 2019 Criminal Justice BRB allows monies in the fund to be used for this purpose. *(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 an FY 2019 transfer of \$1,250,000 from the Public Safety Equipment Fund to the Arizona Department of Administration for upgrades to the statewide Microwave Radio System. The FY 2019 Criminal Justice BRB allows monies in the fund to be used for this purpose. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

Table 2
FY 2019 Beneficiaries of New Highway Safety Fee Revenue
(\$ in Millions)

	Beneficiaries			
	<u>Total</u>	<u>DPS</u>	<u>GF</u>	<u>Local Roads</u>
Reduce DPS HURF and Replace with HS Fee (Transfer State's Gain to GF via VLT)	\$ 84		\$42	\$42
New Troopers and Retirement	7	7		
Replace HELP Support of Local HURF			30	(30)
Total	\$91	\$7	\$72	\$12

Table 3
FY 2020 Beneficiaries of New Highway Safety Fee Revenue ^{1/}
(\$ in Millions)

	Beneficiaries				
	<u>Total</u>	<u>DPS</u>	<u>GF</u>	<u>Local Roads</u>	<u>State Roads</u>
Reduce DPS HURF and Replace with HS Fee	\$ 99			\$ 49	\$ 50
Reduce DPS GF and Replace with HS Fee	21		\$ 21		
Reduce DPS OF, Replace with HS Fee and Transfer OF to GF	40		40		
New Troopers and Retirement	7	7			
Replace GF Support of Local HURF	0		30	(30)	
Deposit Excess HS Fee in GF	16		16		
Total	\$183	\$7	\$107	\$19	\$50

^{1/} All amounts are as compared to the FY 2018 enacted budget.

Table 4

**State Immigration Enforcement
Assistance to Local Governments 1/**

DPS GIITEM Local Immigration Enforcement Grant Expenditures 2/

<u>Agency</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Actual</u>	<u>FY 2018 Estimate 3/</u>	<u>FY 2019 Estimate 3/</u>
Pima County Sheriff's Department	-	-	-	-	\$ 400,000	\$ 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	-	-
DPS Expenditures in Support of Local Grants	428,600	131,700	413,800	503,400	503,400	503,400
Pinal County Sheriff's Department	500,200	500,000	500,000	500,000	500,000	500,000
TOTAL	\$2,528,800	\$2,231,700	\$2,513,800	\$2,603,400	\$1,403,400	\$1,403,400

Year of Appropriation of Funding

FY 2012	-	-	-	-	-	-
FY 2013	\$363,100	-	-	-	-	-
FY 2014	2,165,700	-	-	-	-	-
FY 2015	-	\$2,231,700	\$241,300	-	-	-
FY 2016	-	-	2,272,600	\$247,900	-	-
FY 2017	-	-	-	2,355,500	\$89,600	-
FY 2018	-	-	-	-	1,313,800	-
FY 2019	-	-	-	-	-	1,403,400
TOTAL	\$2,528,800	\$2,231,700	\$2,513,900	\$2,603,400	\$1,403,400	\$1,403,400

Detention Liaison Officer Grants 4/

<u>Agency</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Actual</u>	<u>FY 2018 Estimate</u>	<u>FY 2019 Estimate 5/</u>
Cochise County Sheriff's Office	\$5,500	\$40,500	\$40,500	\$37,500	\$37,500	\$40,500
Graham County Sheriff's Office	15,200	-	-	-	-	-
Maricopa County Sheriff's Office	-	44,100	41,100	89,200	-	-
Pima County Sheriff's Office	56,700	91,900	86,100	87,300	87,300	94,300
Pinal County Sheriff's Office	-	40,000	35,200	47,700	47,700	51,500
Santa Cruz County Sheriff's Office	24,800	30,400	-	-	52,100	56,300
Yuma County Sheriff's Office	35,800	43,200	37,400	-	52,100	-
Department of Corrections	263,000	205,400	205,000	238,300	238,300	257,400
Total	\$401,000	\$495,500	\$445,300	\$500,000	\$515,000	\$500,000

Table 4 (Continued)

Border County Officers 4/	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Actual	Actual	Actual	Estimate	Estimate 5/
Benson Police	\$36,300	\$0	-	-	-	-
Casa Grande Police	-	-	-	-	-	\$67,500
Cochise County Sheriff's Office	-	41,600	\$100,500	\$191,600	\$201,900	210,800
Coolidge Police	66,200	44,300	28,600	64,200	74,500	-
Douglas Police	102,600	115,000	-	-	-	-
Eloy Police	-	-	-	56,400	-	-
Oro Valley Police	47,300	63,300	62,500	66,700	77,000	80,400
Pinal County Sheriff's Office	89,700	-	-	-	-	-
San Luis Police	-	-	-	56,400	66,700	69,600
Somerton Police	-	-	22,300	44,500	54,900	-
Yuma County Sheriff's Office	47,900	56,100	-	-	-	67,500
Unallocated	-	-	-	10,200	-	-
Total	\$390,000	\$320,300	\$213,900	\$490,000	\$475,000	\$495,800
Border Security and Law Enforcement Grants 4/						
Apache County Sheriff's Office	\$11,600	\$11,500	\$12,000	\$70,000	\$0	\$0
Cochise County Sheriff's Office	20,800	20,900	500,000	70,000	350,000	0
Coconino County Sheriff's Office	-	-	-	70,000	0	0
Gila County Sheriff's Office	8,400	8,600	10,000	70,000	0	0
Graham County Sheriff's Office	-	-	9,300	70,000	0	0
Greenlee County Sheriff's Office	-	1,700	2,000	70,000	0	0
La Paz County Sheriff's Office	3,200	3,300	3,500	70,000	0	0
Maricopa County Sheriff's Office	627,700	629,400	100,000	70,000	0	0
Mohave County Sheriff's Office	32,200	32,500	33,000	70,000	0	0
Navajo County Sheriff's Office	16,900	17,300	18,000	70,000	0	0
Pima County Sheriff's Department	156,600	158,900	50,000	70,000	0	0
Pinal County Sheriff's Office	61,100	62,800	100,000	70,000	0	0
Santa Cruz Sheriff's Office	7,500	7,900	36,800	70,000	350,000	0
Yavapai County Sheriff's Office	33,600	34,000	35,000	70,000	0	0
Yuma County Sheriff's Office	-	33,400	112,000	70,000	350,000	0
Unallocated	-	-	-	-	-	1,050,000 4/
Total	\$979,600	\$1,022,200	\$1,021,600	\$1,050,000	\$1,050,000	\$1,050,000

GIITEM Subaccount Expenditures 5/

Agency	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Actual	Actual	Actual	Estimate	Estimate 5/
Pima County Sheriff	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
General Fund Repayment	-	-	-	-	-	-
Border Detention Liaison Officers (See Chart Above)	401,000	495,500	495,500	500,000	515,000	500,000
Border County Officers (See Chart Above)	390,000	320,300	320,300	490,000	475,000	495,800
Border Security and Law Enforcement Grants (See Chart Above)	979,600	1,022,200	1,022,200	1,050,000	1,050,000	1,050,000
TOTAL	\$2,120,600	\$2,188,000	\$2,188,000	\$2,390,000	\$2,390,000	\$2,395,800

Table 4 (Continued)

Border Strike Task Force Local Support 7/8/

Agency	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Estimate	FY 2019 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	-	-
Unallocated	-	-	-	-	-	\$1,261,700 9/
TOTAL	-	-	-	\$1,261,700	\$1,261,700	\$1,261,700

County Attorney Immigration Enforcement Distributions 8/10/

Agency	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Maricopa County Attorney	\$200,000	-	-	-	-	-
Maricopa County Sheriff	500,000	-	-	-	-	-
Pima County Attorney	97,687	\$97,687	-	-	-	-
Pima County Sheriff	-	-	-	-	-	-
Pinal County Attorney	37,447	37,447	-	-	-	-
Pinal County Sheriff	37,447	-	-	-	-	-
Yavapai County Attorney	21,030	21,030	-	-	-	-
Yavapai County Sheriff	-	-	-	-	-	-
Mohave County Attorney	19,949	19,949	-	-	-	-
Mohave County Sheriff	-	-	-	-	-	-
Yuma County Attorney	19,507	19,507	-	-	-	-
Yuma County Sheriff	-	19,507	-	-	-	-
Cochise County Attorney	-	-	-	-	-	-
Cochise County Sheriff	-	-	-	-	-	-
Coconino County Attorney	-	-	-	-	-	-
Coconino County Sheriff	13,396	-	-	-	-	-
Navajo County Attorney	10,708	-	-	-	-	-
Navajo County Sheriff	-	-	-	-	-	-
Apache County Attorney	7,127	7,127	-	-	-	-
Apache County Sheriff	-	7,127	-	-	-	-
Gila County Attorney	5,341	-	-	-	-	-
Gila County Sheriff	-	-	-	-	-	-
Santa Cruz County Attorney	4,726	-	-	-	-	-
Santa Cruz County Sheriff	-	-	-	-	-	-
Graham County Attorney	-	-	-	-	-	-
Graham County Sheriff	-	-	-	-	-	-
La Paz County Attorney	2,042	2,042	-	-	-	-
La Paz County Sheriff	-	-	-	-	-	-
Greenlee County Attorney	-	-	-	-	-	-
Greenlee County Sheriff	-	-	-	-	-	-
Unallocated	236,793	981,777	-	-	-	-
TOTAL	\$1,213,200	\$1,213,200	\$0	\$0	\$0	\$0

- 1/ Further details prior to FY 2019 can be found in the *FY 2018 Appropriations Report*.
- 2/ Funded from non-lapsing \$1.4 million General Fund appropriation, which is part of a \$22.4 million total GIITEM General Fund appropriation to DPS in FY 2019. 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. The FY 2019 budget continues this allocation in FY 2019. 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. These monies were not yet allocated by DPS at the time of publishing. A FY 2019 General Appropriation Act footnote requires DPS to submit an expenditure plan to JLBC for review.
- 5/ FY 2019 GIITEM Subaccount amounts reflect allocations from the DPS expenditure plan as reviewed at the June 19, 2018 meeting of the JLBC. The expenditure plan for the Border Security and Law Enforcement Grants was not submitted by DPS for review at that meeting. DPS will submit that plan at a later date.
- 6/ As required by Laws 2018, Chapter 276, JLBC must review DPS' FY 2018 GIITEM Subaccount expenditure plan before the expenditure of any monies. The Committee reviewed \$1.3 million of the \$2.4 million appropriation on June 19, 2018. The Committee will review the remaining monies at a later meeting.
- 7/ 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 2019.
- 8/ Funded by a General Fund appropriation.
- 9/ These monies were not yet allocated by DPS at the time of publishing. A FY 2019 General Appropriation Act footnote requires DPS to submit an expenditure plan to the Joint Legislative Budget Committee and Governor's Office of Strategic Planning and Budgeting by September 1, 2018.
- 10/ Funding for this line item was not continued in FY 2016.

Public Safety Personnel Retirement System

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
SPECIAL LINE ITEMS			
EORP Fund Deposit	5,000,000	5,000,000	5,000,000
Prescott Fire Employer Group Deposit	1,000,000	1,000,000	2,000,000
AGENCY TOTAL	6,000,000	6,000,000	7,000,000
FUND SOURCES			
General Fund	6,000,000	6,000,000	7,000,000
SUBTOTAL - Appropriated Funds	6,000,000	6,000,000	7,000,000
Other Non-Appropriated Funds	12,457,600	13,776,100	15,327,600
TOTAL - ALL SOURCES	18,457,600	19,776,100	22,327,600

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 2019 as part of the closure of the Elected Officials Retirement Plan (EORP). This amount is unchanged from FY 2018. (See the *FY 2017 Appropriations Report* and the *Consolidated Retirement Report* section in this *FY 2019 Appropriations Report* for more information.)

The annual \$5,000,000 General Fund appropriation is authorized in permanent law (A.R.S § 38-810). As a result, monies in the line item are not included in the General Appropriation Act.

Prescott Fire Employer Group Deposit

The budget includes \$2,000,000 from the General Fund in FY 2019 for deposit into the employer account of the Prescott Fire Department group. FY 2019 adjustments are as follows:

One-Time Prescott Fire Employer Group Deposit

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for a one-time deposit into the PSPRS employer account of the Prescott Fire Department group to offset increased pension liabilities.

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 PSPRS 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 a total of \$5,000,000 from the General Fund for deposit into the employer account of the Prescott Fire Department from FY 2015 through FY 2019. The \$5,000,000 was split into 5 \$1,000,000 appropriations between FY 2015 and FY 2019.

Given the original FY 2015 General Appropriation Act appropriation for 5 years, the FY 2019 funding would not be included in the FY 2019 General Appropriation Act.

In addition to the multi-year \$1,000,000 appropriation, the FY 2019 budget appropriated an additional \$1,000,000 to the employer account of the Prescott Fire Department on a one-time basis.

Of the remaining 13 firefighters who were classified as seasonal employees and initially considered ineligible for membership in PSPRS, 4 were posthumously enrolled in PSPRS after the Prescott Fire Department's local board determined that those firefighters met the criteria for membership.

See the [Consolidated Retirement Report](#) section for more information on PSPRS membership and actuarial data.

Radiation Regulatory Agency

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	34.5	34.5	0.0
Personal Services	841,100	841,100	0
Employee Related Expenditures	355,200	355,200	0
Professional and Outside Services	41,000	41,000	0
Travel - In State	25,100	25,100	0
Travel - Out of State	7,400	7,400	0
Other Operating Expenditures	268,900	368,400	0
Equipment	6,100	6,100	0
OPERATING SUBTOTAL	1,544,800	1,644,300	0
SPECIAL LINE ITEMS			
Nuclear Emergency Management Program	789,600	789,700	0
AGENCY TOTAL	2,334,400	2,434,000	0
FUND SOURCES			
General Fund	1,529,400	787,600	0
<u>Other Appropriated Funds</u>			
Nuclear Emergency Management Fund	0	789,700	0
Radiation Regulatory Fee Fund	555,900	582,900	0
State Radiologic Technologist Certification Fund	249,100	273,800	0
SUBTOTAL - Other Appropriated Funds	805,000	1,646,400	0
SUBTOTAL - Appropriated Funds	2,334,400	2,434,000	0
Other Non-Appropriated Funds	48,600	48,500	0
Federal Funds	260,600	184,600	0
TOTAL - ALL SOURCES	2,643,600	2,667,100	0

AGENCY DESCRIPTION — The department regulated the use, storage, and disposal of sources of radiation. This included 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 were transferred to the Arizona Department of Health Services.

Laws 2017, Chapter 313 transferred the responsibilities of the Arizona Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS) effective January 1, 2018. The FY 2018 General Appropriation Act provided a full year's funding to ARRA. As a result, the FY 2018 column is displayed as the full appropriation. Upon the effective date, a portion of this funding became available to DHS to administer the ARRA program.

	FY 2019
General Fund	\$(787,600)
Radiation Regulatory Fee Fund	(582,900)
State Radiologic Technologist Certification Fund	(273,800)

Nuclear Emergency Management Program

The budget includes no funding in FY 2019 for the Nuclear Emergency Management Program line item. FY 2019 adjustments are as follows:

Agency Transfer

The budget includes a decrease of \$(789,663) and (5.5) FTE Positions from the Nuclear Emergency Management Fund in FY 2019 for the transfer of agency responsibilities to DHS.

Operating Budget

The budget includes no funding in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Agency Transfer

The budget includes a decrease of \$(1,644,300) and (29) FTE Positions from the operating budget in FY 2019 for the transfer of agency responsibilities to DHS. These amounts consist of:

State Real Estate Department

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	37.0	37.0	37.0
Personal Services	1,331,400	1,612,600	1,612,600
Employee Related Expenditures	509,000	656,200	641,300
Professional and Outside Services	120,200	131,000	131,000
Travel - In State	16,200	17,000	17,000
Travel - Out of State	3,700	4,000	4,000
Other Operating Expenditures	466,000	534,100	432,700
Equipment	13,200	73,100	73,100
AGENCY TOTAL	2,459,700	3,028,000	2,911,700^{1/}
FUND SOURCES			
General Fund	2,459,700	3,028,000	2,911,700
SUBTOTAL - Appropriated Funds	2,459,700	3,028,000	2,911,700
Other Non-Appropriated Funds	160,900	338,500	338,500
TOTAL - ALL SOURCES	2,620,600	3,366,500	3,250,200

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 \$2,911,700 and 37 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Vacancy Savings

The budget includes a decrease of \$(90,500) from the General Fund in FY 2019 for vacancy savings associated with leaving positions unfilled.

Statewide Adjustments

The budget includes a decrease of \$(25,800) from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Online Real Estate License Classes

Laws 2018, Chapter 327 allows real estate broker and salesperson applicants to complete required pre-licensure coursework online. Currently, applicants are required to complete 90 hours of coursework in-classroom. The Department of Real Estate is required to certify that pre-licensure coursework meets certain requirements. The department anticipates that there will be an increased number of courses to certify as a result of the legislation. For this reason, additional staff time may be needed to process pre-licensure course applications.

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

Residential Utility Consumer Office

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	648,900	757,700	757,700
Employee Related Expenditures	235,800	254,800	250,100
Professional and Outside Services	0	2,400	2,400
Travel - In State	4,900	8,600	8,600
Travel - Out of State	8,400	7,000	7,000
Other Operating Expenditures	166,000	168,800	171,800
Equipment	1,800	0	0
OPERATING SUBTOTAL	1,065,800	1,199,300	1,197,600
SPECIAL LINE ITEMS			
Professional Witnesses	83,800	145,000	145,000 ^{1/}
AGENCY TOTAL	1,149,600	1,344,300	1,342,600 ^{2/}

FUND SOURCES

Other Appropriated Funds

Residential Utility Consumer Office Revolving Fund	1,149,600	1,344,300	1,342,600
SUBTOTAL - Other Appropriated Funds	1,149,600	1,344,300	1,342,600
SUBTOTAL - Appropriated Funds	1,149,600	1,344,300	1,342,600
TOTAL - ALL SOURCES	1,149,600	1,344,300	1,342,600

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 \$1,197,600 and 11 FTE Positions from the RUCO Revolving Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,700) from the RUCO Revolving Fund in FY 2019 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 2019 for Professional Witnesses. This amount is unchanged from FY 2018.

Monies in this line item are used to fund expert witness testimony at utility rate hearings.

Other Issues

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2018</u>	<u>FY 2019</u>
RUCO Revolving Fund	\$0	\$60,000

^{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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	170,800	176,500	176,500
Employee Related Expenditures	65,100	66,100	64,900
Professional and Outside Services	8,000	6,500	6,500
Travel - In State	700	1,500	1,500
Travel - Out of State	1,200	2,000	2,000
Other Operating Expenditures	47,500	50,500	62,300
Equipment	4,500	700	700
OPERATING SUBTOTAL	297,800	303,800	314,400
SPECIAL LINE ITEMS			
Temporary Caseload Increase	0	19,500	0
AGENCY TOTAL	297,800	323,300	314,400^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Respiratory Care Examiners Fund	297,800	323,300	314,400
SUBTOTAL - Other Appropriated Funds	297,800	323,300	314,400
SUBTOTAL - Appropriated Funds	297,800	323,300	314,400
TOTAL - ALL SOURCES	297,800	323,300	314,400

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 \$314,400 and 4 FTE Positions from the Board of Respiratory Care Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Shared Services Costs

The budget includes an increase of \$2,100 from the Board of Respiratory Care Examiners Fund in FY 2019 for costs associated with shared services in the 1740 W. Adams state office building, including building security, Wi-Fi, and conference rooms. Shared services are managed by the Arizona Department of Administration Central Services Bureau.

E-Licensing Operating Costs

The budget includes an increase of \$17,600 from the Board of Respiratory Care Examiners Fund in FY 2019 for the board's share of ongoing operational costs for the statewide E-Licensing system.

Statewide Adjustments

The budget includes a decrease of \$(9,100) from the Board of Respiratory Care Examiners Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Temporary Caseload Increase

The budget includes no funding from the Board of Respiratory Care Examiners Fund in FY 2019 for Temporary Caseload Increase. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(19,500) from the Board of Respiratory Care Examiners Fund in FY 2019 for the removal of a one-time FY 2018 increase for temporary personnel to process an increased number of cases.

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

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$7,500 for relocation costs. This appropriation is not displayed in the table above.

Arizona State Retirement System

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	250.9	250.9	245.9
Personal Services	12,730,000	13,025,000	13,025,000
Employee Related Expenditures	4,696,600	5,310,800	5,256,900
Professional and Outside Services	3,401,900	3,777,400	3,477,400
Travel - In State	24,000	30,000	30,000
Travel - Out of State	32,700	49,000	49,000
Other Operating Expenditures	2,408,400	2,586,000	2,302,500
Equipment	221,600	389,500	389,500
OPERATING SUBTOTAL	23,515,200	25,167,700	24,530,300
SPECIAL LINE ITEMS			
Automation Upgrades	1,041,000	0	0
One-Time IT Expenses	0	0	500,000
AGENCY TOTAL	24,556,200	25,167,700	25,030,300 ^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Long-Term Disability Trust Fund Administration Account	1,782,100	2,500,000	2,200,000
State Retirement System Administration Account	22,774,100	22,667,700	22,830,300
SUBTOTAL - Other Appropriated Funds	24,556,200	25,167,700	25,030,300
SUBTOTAL - Appropriated Funds	24,556,200	25,167,700	25,030,300
Other Non-Appropriated Funds	15,098,500	16,003,000	15,961,900
TOTAL - ALL SOURCES	39,654,700	41,170,700	40,992,200

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

Operating Budget

The budget includes \$24,530,300 and 245.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
State Retirement System Administration Account	\$22,330,300
Long-Term Disability (LTD) Trust Fund Administration Account	2,200,000

FY 2019 adjustments are as follows:

Operating Budget Savings

The budget includes a decrease of \$(225,000) and (5) FTE Positions from the State Retirement System

Administration Account in FY 2019 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 Administration Account in FY 2019 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/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Statewide Adjustments

The budget includes a decrease of \$(112,400) from the State Retirement System Administration Account in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocation section.)*

One-Time IT Expenses

The budget includes \$500,000 from the State Retirement System Administration Account in FY 2019 for the One-Time IT Expenses line item. FY 2019 adjustments are as follows:

IT Project Extension

The budget includes a one-time increase of \$500,000 from the State Retirement System Administration Account in FY 2019 to complete work on information technology projects.

This one-time appropriation will be used to purchase a software tool for ASRS' agencywide enterprise risk management program and for data security initiatives.

See the [Consolidated Retirement Report](#) section for more information on ASRS membership and actuarial data.

Department of Revenue

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8 ^{1/}
Personal Services	24,337,400	25,702,100	27,347,100
Employee Related Expenditures	10,028,900	10,977,800	10,898,900
Professional and Outside Services	7,709,600	9,539,100	9,539,100
Travel - In State	53,600	159,700	159,700
Travel - Out of State	3,800	34,400	34,400
Other Operating Expenditures	14,027,000	16,127,200	15,178,200
Equipment	3,664,700	2,257,100	2,257,100
OPERATING SUBTOTAL	59,825,000	64,797,400	65,414,500 ^{2/}
SPECIAL LINE ITEMS			
BRITS Operational Support	7,312,700	7,604,900	7,546,500
Prime Contracting Noncompliance Study	0	0	75,000 ^{3/}
Tax Fraud Prevention	2,827,900	3,150,000	3,150,000 ^{4/5/}
TPT Simplification	872,800	1,005,300	982,500
Unclaimed Property Administration and Audit	1,747,600	1,218,500	1,218,500 ^{6/}
Veterans' Income Tax Settlements	47,700	0	0
AGENCY TOTAL	72,633,700	77,776,100	78,387,000 ^{1/8/}
FUND SOURCES			
General Fund	28,467,300	31,333,700	31,063,800
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	43,214,900	45,303,700	45,713,900
Department of Revenue Empowerment Scholarship Account Fund	0	50,000	50,000
Liability Setoff Program Revolving Fund	331,600	404,100	802,800
Residential Contractors' Recovery Fund	0	0	75,000
Tobacco Tax and Health Care Fund	619,900	684,600	681,500
SUBTOTAL - Other Appropriated Funds	44,166,400	46,442,400	47,323,200
SUBTOTAL - Appropriated Funds	72,633,700	77,776,100	78,387,000
Other Non-Appropriated Funds	1,167,900	998,300	998,300
TOTAL - ALL SOURCES	73,801,600	78,774,400	79,385,300

AGENCY DESCRIPTION — The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.

^{1/} Includes 70 GF FTE Positions funded from Special Line Items in FY 2019.

^{2/} The operating lump sum appropriation includes \$2,000,000 and 25 FTE Positions for additional audit and collections staff. (General Appropriation Act footnote)

^{3/} Laws 2018, Chapter 305 appropriated \$75,000 from the Residential Contractors' Recovery Fund for an independent study of noncompliance rates with statutory prime contracting TPT requirements.

^{4/} The department may not transfer any monies to or from the Tax Fraud Prevention line item without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{5/} On or before November 1, 2018, the department shall report the results of private fraud prevention investigation services during FY 2018 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 2018. (General Appropriation Act footnote)

^{6/} 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)

Operating Budget

The budget includes \$65,414,500 and 810.8 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$24,901,000
DOR Administrative Fund	38,979,200
DOR Empowerment Scholarship Account Fund	50,000
Liability Setoff Program Revolving Fund	802,800
Tobacco Tax and Health Care Fund	681,500

FY 2019 adjustments are as follows:

Additional Enforcement Staff

The budget includes an increase of \$2,000,000 from the General Fund in FY 2019 for 25 new enforcement staff positions. In lieu of increasing the department's FTE Position authority, the budget assumes the department will use its existing FTE Position authority to hire the additional staff.

DOR decreased its enforcement staffing from 212 auditors and 120 collectors at the beginning of FY 2016 to 90 auditors and 82 collectors as of January 2018. The FY 2019 appropriation will be used to replace a portion of the enforcement staff reduction. The budget estimates these 25 additional positions will generate \$25 million in additional General Fund revenue.

Rent Savings

The budget includes a decrease of \$(500,000) from the General Fund in FY 2019 for rent savings after DOR closed an offsite tax processing center and moved the employees to their 1600 West Monroe Street building.

Lump Sum Reduction

The budget includes a decrease of \$(500,000) from the General Fund in FY 2019 for a lump sum reduction.

Reduce Postage and Data Storage Costs

The budget includes a decrease of \$(425,000) from the General Fund in FY 2019 for a reduction in postage and

data storage costs. Laws 2018, Chapter 338 allows the department to send some communications via electronic messages (email or DOR electronic portal) rather than postage, and eliminates requirements to retain certain tax filing documents.

Fund Shift

The budget includes a decrease of \$(400,000) from the General Fund and a corresponding increase of \$400,000 from the Liability Setoff Program Revolving Fund in FY 2019 for a fund shift.

One-Time Named Claimants Funding

The budget includes a decrease of \$(42,390.67) from the General Fund in FY 2019 for the elimination of one-time funding for prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Empowerment Scholarship Account Administration

The budget includes no change in funding from the Department of Revenue Empowerment Scholarship Account Fund (DRESAF) in FY 2019 for administration of the Empowerment Scholarship Account (ESA) program authorized by A.R.S. § 15-2402.

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 is to 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.

Apart from Chapter 139, the FY 2018 General Appropriation Act appropriated \$50,000 in ESA administration funding from the DRESAF in FY 2018. The implementation of the new DOR Fund, however, is on hold. Laws 2017, Chapter 139 authorized its establishment, but that legislation currently is suspended due to a citizens' referendum.

As a result, the fund does not currently exist and the \$50,000 is not available for expenditure. The budget

7/ The department shall report the department's General Fund revenue enforcement goals for FY 2019 to the Joint Legislative Budget Committee on or before September 30, 2018. On or before September 30, 2018, 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, and on or before September 30, 2019, 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 2019. The reports shall include a comparison of projected and actual state General Fund, total state tax, total county tax and total municipal tax revenue enforcement collections for FY 2018 and FY 2019, including the amount of projected and actual enforcement collections for all tax types. The reports shall also include the total number of transaction privilege tax delinquent accounts, the total dollar value of those accounts by age of account and the total dollar amount of delinquent account write-offs determined to be uncollectible for FY 2018. (General Appropriation Act footnote)

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

keeps the \$50,000 of funding in the department’s budget for FY 2019, however, pending the outcome of the Chapter 139 referendum. A vote on the referendum is scheduled to occur in November 2018.

(For more information see the Department of Education section, Empowerment Scholarship Account policy issue under Basic State Aid in the FY 2018 Appropriations Report.)

Statewide Adjustments

The budget includes an increase of \$84,500 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(311,500)
DOR Administrative Fund	400,400
Liability Setoff Program Revolving Fund	(1,300)
Tobacco Tax and Health Care Fund	(3,100)

(Please see the Agency Detail and Allocations section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes \$7,546,500 and 51 FTE Positions in FY 2019 for operational support of BRITS. These amounts consist of:

General Fund	2,030,300
DOR Administrative Fund	5,516,200

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(58,400) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(68,200)
DOR Administrative Fund	9,800

This line item funds the 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.

Prime Contracting Noncompliance Study

Laws 2018, Chapter 305 appropriates \$75,000 of one-time funding from the Residential Contractors' Recovery Fund in FY 2019 for the Prime Contracting Noncompliance Study line item. This funding will be used for an independent study of noncompliance rates with statutory prime contracting TPT requirements.

Under the prime contracting TPT classification, some building materials purchased by a TPT-licensed contractor are exempt from the retail TPT classification. Instead, contractors pay the prime contracting TPT based on 65% of gross receipts on projects not considered maintenance, repair, replacement or alteration (which do require payment of the retail TPT on building materials). Chapter 305 would allow DOR to contract for an independent study of the noncompliance rates related to prime contracting exemption certificates.

Tax Fraud Prevention

The budget includes \$3,150,000 from the General Fund in FY 2019 for Tax Fraud Prevention. This amount is unchanged from FY 2018.

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.

The budget also includes an estimated \$30 million in additional General Fund TPT revenues as a result of increased TPT fraud prevention efforts. DOR intends to contract with vendors to use data analytics to generate audit leads of potential TPT fraud and noncompliance.

TPT Simplification

The budget includes \$982,500 and 19 FTE Positions from the General Fund in FY 2019 for TPT Simplification responsibilities. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(22,800) from the General Fund in FY 2019 for statewide adjustments.

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 2019 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2018.

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.

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation of \$42,390.67 from the General Fund for a one-time supplemental named claimants appropriation.

Additional Legislation

DOR Local Cost Sharing

The FY 2019 Revenues Budget Reconciliation Bill (Laws 2018, Chapter 283) 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).

DOR Tax Fraud Interdiction Fund

Laws 2018, Chapter 190 makes the possession, use, sale, purchase or creation of sales tax suppression devices, also known as zappers, illegal, and punishable as a Class 4 felony and a fine of up to \$100,000 for an individual and \$500,000 for a corporation. These fines will be deposited in the DOR Tax Fraud Interdiction Fund, which is subject to legislative appropriation. Fifty percent of the monies deposited into the fund will be used by DOR to detect tax fraud violations and 50% will be transferred to the Attorney General's office to prosecute tax fraud violations.

Tobacco Tax/Master Settlement Agreement

The budget continues to transfer \$436,000 from the Traditional Medicaid Services line item in AHCCCS in FY 2019 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.)*

School Facilities Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	840,100	924,100	924,100
Employee Related Expenditures	226,500	330,900	325,200
Professional and Outside Services	186,300	163,200	163,200
Travel - In State	12,100	25,000	25,000
Travel - Out of State	1,900	10,000	10,000
Other Operating Expenditures	195,000	227,500	253,200
OPERATING SUBTOTAL	1,461,900	1,680,700	1,700,700
SPECIAL LINE ITEMS			
New School Facilities			
New School Facilities (FY 2016 Authorization)	1,174,600	0	0
New School Facilities (FY 2017 Authorization)	23,078,600	23,078,600	0
New School Facilities (FY 2018 Authorization)	0	63,929,800	37,989,800
New School Facilities (FY 2019 Authorization)	0	0	49,636,700 ^{1/}
New School Facilities Debt Service	170,006,600	169,761,700	134,287,300 ^{2/}
Other Programs			
Building Renewal Grants	31,667,900	43,835,800	51,085,800
Public School Credit Enhancement Transaction Costs	500,000	0	0
AGENCY TOTAL	227,889,600	302,286,600	274,700,300 ^{3/4/}
FUND SOURCES			
General Fund	227,889,600	302,286,600	274,700,300
SUBTOTAL - Appropriated Funds	227,889,600	302,286,600	274,700,300
Other Non-Appropriated Funds	90,877,600	113,039,500	64,121,400
TOTAL - ALL SOURCES	318,767,200	415,326,100	338,821,700

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.

Operating Budget

The budget includes \$1,700,700 and 17 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$20,000 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} Pursuant to A.R.S. § 15-2041 the amount appropriated for New School Facilities shall be used only for facilities and land costs for school districts that received final approval from the School Facilities Board in November 2017. (General Appropriation Act footnote)
- ^{2/} 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)
- ^{3/} 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 2019 must be deposited in or revert to 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.

New School Facilities

The budget includes \$87,626,500 from the General Fund in FY 2019 for New School Facilities, which is an increase of \$618,100 from FY 2018. The FY 2019 funding amount for New School Facilities includes the following:

- \$37,989,800 for the remaining 50% of funding to complete 6 projects which were authorized to begin construction in FY 2018.
- \$49,636,700 for the land costs and the first 50% of construction costs for 6 projects that will be authorized to begin construction in FY 2019.

New School Construction is labeled as one-time rather than ongoing.

(Please see Table 3 for a summary of FY 2018 through FY 2021 New School Facilities Funding.)

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 January 2018 meeting, the JLBC approved a 3.12% adjustment in the cost per square foot amounts. This inflation adjustment is based on measure of construction costs since December 2016 when the Committee last adopted an adjustment. Pursuant to A.R.S. § 15-2041D, this adjustment would only be applied prospectively. *(Please see Table 1 for statutory funding guidelines.)*

The FY 2019 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 285) requires the board to submit a report to the JCCR on the fiscal impact of any changes made to the minimum adequacy guidelines. The minimum adequacy guidelines are established in SFB rule and set standards for school facilities. In addition, the bill clarifies that the 40th day average daily membership count should be used when calculating the per pupil square footage requirements for eligible new school construction projects.

The K-12 Education BRB allows SFB to notwithstanding the statutory per-square-foot construction funding guidelines for the Benson Unified School District (USD) project approved in the FY 2016 budget. The FY 2016 budget included \$850,000 for the Benson USD to purchase land for its new school construction project. Benson USD has decided to build additional square footage on an existing school instead of building a new school and therefore does not need funding for land acquisition. Chapter 285 allows Benson to use funding allocated for land to pay for construction costs beyond the established funding formula which would fund the project at \$184.65 per square foot rather than \$136.66 under the FY 2016 formula.

Table 1

New School Facilities Statutory Funding Guidelines

Type of School	Square Feet Per Student	Funding Per Square Foot ^{1/2/}
K-6	90	\$147.00
7-8	100	\$155.19
9-12 (<1,800 pupils)	134	\$179.69
9-12 (≥1,800 pupils)	125	\$179.69

^{1/} Increased by 5% for rural school districts.

^{2/} These amounts apply to schools awarded after any adjustment is approved by the JLBC. Adjusted annually for inflation.

In addition to the state funding formula, school districts may generate additional funding through the issuance of bonds *(see Other Issues for K-12 Capital Bonding)*.

New School Facilities (FY 2017 Authorization)

The budget includes no funding in FY 2019 for New School Facilities which were authorized in FY 2017. FY 2019 adjustments are as follows:

New School Funding Completion

The budget includes a decrease of \$(23,078,600) from the General Fund in FY 2019 for the completion the Agua Fria UHSD and Chandler Unified 7-12 project. *(Please see Table 3 for details)*

New School Facilities (FY 2018 Authorization)

The budget includes \$37,989,800 from the General Fund in FY 2019 to continue funding for New School Facilities which were authorized to start construction in FY 2018. FY 2019 adjustments are as follows:

Continue New School Construction Projects

The budget includes a decrease of \$(24,940,000) from the General Fund in FY 2019 to continue construction for 6 new school projects awarded by SFB in February 2017.

The FY 2018 budget provided approximately 50% of construction costs in each project in FY 2018 and 100% of the land acquisition costs. The FY 2019 budget eliminates the land acquisition cost and funds the remaining 50% of construction costs.

The FY 2019 budget funds the following projects authorized to start in FY 2018:

- Chandler Unified (9-12) – for an addition at Hamilton High School.
- Chandler Unified (9-12) – for an addition at Camille Casteel High School.
- Chandler Unified (7-12) – for a new school. There was no land required.
- Queen Creek Unified (9-12) – for a new high school, including land.
- Vail Unified (K-5) – for a new elementary school, including land.
- Vail Unified (9-12) – for a new high school, including land.

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305, Section 137) already appropriated the FY 2019 amounts listed above. As a result, these monies do not appear in the FY 2019 General Appropriation Act. (Please see Table 3 for details.)

Remove New School Construction Site Conditions

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2019 for site conditions related to the 6 projects 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. (Please see Table 3 for details.)

New School Facilities (FY 2019 Authorization)

The budget includes \$49,636,700 from the General Fund in FY 2019 for New School Facilities projects which are authorized to start construction in FY 2019.

The FY 2019 budget funds the following projects authorized to start in FY 2019:

Begin New School Construction Projects

The budget includes an increase of \$49,636,700 from the General Fund in FY 2019 to begin construction for 6 new school projects awarded by SFB in November 2017. The budget includes 50% of construction costs and 100% of land costs for each project in FY 2019. This amount includes:

- Chandler Unified (9-12) – for an addition at Chandler High School
- Chandler Unified (9-12) – for an addition at Perry High School.
- Chandler Unified (9-12) – for an addition at Camille Casteel High School.
- Chandler Unified (9-12) – for an addition at Basha High School.
- Queen Creek Unified (K-5) – for a new school including land.
- Tolleson UHSD (9-12) – for a new high school including land.

In addition, the FY 2019 General Appropriation Act (Laws 2018, Chapter 276, Section 138) appropriates the remaining \$36,726,700 of funding in FY 2020 for these 6 projects. (See Table 3 and the Long-Term Budget Impacts section for more information.)

New School Facilities Debt Service

The budget includes \$134,287,300 from the General Fund in FY 2019 for New School Facilities Debt Service. FY 2019 adjustments are as follows:

Lease-Purchase Payment

The budget includes a decrease of \$(35,474,400) from the General Fund in FY 2019 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 2019, the outstanding amount of General Fund lease-purchase principal to be paid will be \$366,510,000.

The FY 2019 budget includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2019. 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 2019 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 \$51,085,800 from the General Fund in FY 2019 for Building Renewal Grants. FY 2019 adjustments are as follows:

New Funding

The budget includes an increase of \$7,250,000 from the General Fund in FY 2019 for one-time funding for building renewal grants.

Since FY 2014, the state has funded an ongoing "base" amount of Building Renewal Grant funding of \$16,667,900. In FY 2018, Building Renewal Grant funding (including the supplemental amount) allocates an additional \$27,167,900 in one-time funding above this base amount. The FY 2019 budget includes one-time funding of \$34,417,900 for Building Renewal Grants above the ongoing "base" amount. *(Please see Other Issues for more information.)*

The 2019 K-12 Education BRB makes changes to the Building Renewal Grants program including requiring the board to classify projects as critical and non-critical. The board is required to limit awards to available funds and give priority to critical projects. In addition, the bill requires the Auditor General to complete a special financial audit on Building Renewal Grant Fund expenditures by June 30, 2019.

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. "Primary" building renewal funding is for projects required to meet the minimum school facility adequacy guidelines. *(Please see Table 2 for the FY 2013 through FY 2019 Building Renewal Appropriations.)*

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.

Table 2

**Building Renewal Appropriations
FY 2013 - FY 2019**

<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	43,835,800
2019	51,085,800

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.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2018 Supplemental
- 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 \$(75,129,700) in FY 2020 below FY 2019 and decrease by \$(90,248,700) in FY 2021 below FY 2020. These estimates are based on:

Debt Service Changes

SFB debt service is expected to decrease by \$(2,416,800) in FY 2021 and \$(64,692,700) in FY 2022.

One-Time Building Renewal Funding

SFB building renewal grant costs funding would decrease by \$(34,417,900) in FY 2020 and remaining unchanged in FY 2021. The enacted budget 3-year spending plan labeled \$34,417,900 as one-time and discontinues it beginning in FY 2020, which would return SFB Building Renewal Grants funding to the ongoing "base" level of \$16,667,900.

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 to begin construction in FY 2018; and 2) Conceptual approval made by SFB as part of the agencies' long-term planning process.

In FY 2020, new school construction spending is projected to decrease by \$(38,295,000). In addition, FY 2021 new school construction spending is projected to decrease by \$(25,556,000) below FY 2020. *(Please see Table 3 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.

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation of \$10,000,000 from the General Fund for Building Renewal Grants. *(Please see the Building Renewal Grants section for more information.)*

Additional Legislation

Agency Continuation and Board Composition.

The FY 2019 K-12 Education BRB continues the board for 4 years through FY 2022. In addition, the bill modifies the composition of the board to include a member with experience in public procurement and a member who owns a private construction firm that does not conduct business with schools.

School District Procurement

The FY 2019 K-12 Education BRB requires the State Board of Education to adopt rules for school district procurement of any materials, services, goods, construction or construction services to ensure maximum practicable competition. In addition, the bill requires the State Board of Education to require school procurement contracts to be awarded to the lowest qualified bidder, effective July 1, 2019. The bill allows the Attorney

General to investigate allegations of procurement compliance.

The FY 2019 K-12 Education BRB also bans school and district employees from accepting gifts from vendors if the employee is involved in procurement or financial transactions on behalf of the school district. The ban excludes expenditures on food, beverages, and special events.

Finally, the FY 2019 K-12 Education BRB requires a school district to contract with a new audit firm every 3 years and prohibits school districts from using the same audit vendor for consulting services.

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 2017, the total amount of voter-approved school district bonds outstanding was approximately \$5.0 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. Based on JLBC Staff estimates, there were 13 districts with Class B bond approvals in 2017 for a total of \$812.6 million.

Public School Credit Enhancement Program

The Arizona Public School Credit Enhancement Program assists achievement district schools in obtaining financing by guaranteeing the payment of principal and interest.

The program is currently operated by the Governor's Office of Education. As of March 2018, 6 schools have been approved financing through the program totaling \$161.4 million – Academy of Math and Science, Arizona

Agribusiness and Equine Center, Great Hearts Academies (2), BASIS Schools, and American Leadership Academy. As of March 2018, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$105,334,100 and has a leverage ratio of 1.36 (based on only issued financings of \$142.8 million). The statutory limit for the program's leverage ratio is 3.5.

Table 3

Long-Term New School Facilities Funding							
	Type	Sq. Ft.	Student Capacity	FY 2018	FY 2019	FY 2020	FY 2021
FY 2017 Starts ^{1/}							
Agua Fria 9-12	New	200,000	1,600	\$16,705,000			
Chandler 7-12	Addition	79,940	685	6,373,600	0	0	0
Subtotal - FY 2017 Starts				\$23,078,600	\$ 0	\$ 0	\$ 0
FY 2018 Starts							
Chandler 9-12	Addition	40,000	320	\$ 3,485,000	\$ 3,485,000		
Chandler 9-12	Addition	60,000	480	5,227,500	5,227,500		
Chandler 7-12	New	24,974	214	2,077,000	2,077,000		
Queen Creek 9-12	New	141,875	1,135	12,260,800	12,460,800		
Queen Creek 9-12 Land				17,640,000			
Vail K-5	New	54,000	600	3,848,900	3,848,900		
Vail K-5 Land				1,500,000			
Vail 9-12	New	125,000	1,000	10,890,600	10,890,600		
Vail 9-12 Land				6,000,000			
Site Conditions				1,000,000	0	0	0
Subtotal - FY 2018 Starts				\$63,929,800	\$37,989,800	\$ 0	\$ 0
FY 2019 Starts							
Chandler 9-12	Addition	25,000	266		\$ 2,178,100	\$ 2,178,100	
Chandler 9-12	Addition	40,000	426		3,485,000	3,485,000	
Chandler 9-12	Addition	15,000	160		1,306,900	1,306,900	
Chandler 9-12	Addition	15,000	160		1,306,900	1,306,900	
Queen Creek K-5	New	63,000	788		4,490,400	4,490,400	
Queen Creek K-5 Land					4,410,000		
Tolleson 9-12	New	275,000	2,926		23,959,400	23,959,400	
Tolleson 9-12 Land				0	8,500,000	0	0
Subtotal - FY 2019 Starts				\$ 0	\$49,636,700	\$36,726,700	\$ 0
FY 2020 Starts ^{2/}							
Chandler	Addition	23,750	190			\$ 2,133,800	\$ 2,133,800
Pima K-6	Addition	2,520	28			194,500	194,500
Somerton K-6	New	45,000	500			3,307,500	3,307,500
Somerton K-6 Land						1,500,000	
Vail K-5	New	54,000	675			3,969,000	3,969,000
Vail K-5 Land				0	0	1,500,000	0
Subtotal - FY 2020 Starts				\$ 0	\$ 0	\$12,604,800	\$9,604,800
FY 2021 Starts ^{2/}							
Laveen K-8	New	92,400	1,000				\$ 6,880,900
Vail 6-8	New	62,836	650				4,789,800
Vail 6-8 Land				0	0	0	2,500,000
Subtotal - FY 2021 Starts				\$ 0	\$ 0	\$ 0	\$14,170,700
Total				\$87,008,400	\$87,626,500	\$49,331,500	\$23,775,500

^{1/} Agua Fria and Chandler also received \$16.7 million and \$6.4 million, respectively in FY 2017.

^{2/} Reflects SFB conceptual approvals awarded before March 2018.

Department of State - Secretary of State

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	141.1	141.1	141.1
Personal Services	5,319,100	5,622,700	5,622,700
Employee Related Expenditures	2,110,300	2,273,000	2,375,200
Professional and Outside Services	1,067,100	877,300	877,300
Travel - In State	60,700	23,900	23,900
Travel - Out of State	23,400	13,500	13,500
Other Operating Expenditures	3,267,800	3,333,100	3,217,700
Equipment	148,800	50,000	50,000
OPERATING SUBTOTAL	11,997,200	12,193,500	12,180,300 ^{1/}
SPECIAL LINE ITEMS			
Election Services	2,359,400	0	4,000,000 ^{2/}
Help America Vote Act (HAVA)	1,458,100	2,943,700 ^{3/}	0
Library Grants-in-Aid	549,900	651,400	651,400 ^{4/}
Other Help America Vote Act Projects	0	0	5,400,400 ^{5/}
Special Election	6,255,600	2,500,000 ^{6/}	0
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
Statewide Voter Registration System	0	0	2,063,300 ^{7/}
AGENCY TOTAL	22,717,200	18,385,600	24,392,400 ^{8/}
FUND SOURCES			
General Fund	20,566,400	14,690,100	15,568,800
<u>Other Appropriated Funds</u>			
Data Processing Acquisition Fund	0	0	115,500
Election Systems Improvement Fund	1,458,100	2,943,700	7,463,700
Records Services Fund	692,700	751,800	1,244,400
SUBTOTAL - Other Appropriated Funds	2,150,800	3,695,500	8,823,600
SUBTOTAL - Appropriated Funds	22,717,200	18,385,600	24,392,400
Other Non-Appropriated Funds	844,000	870,900	870,900
Federal Funds	3,019,600	3,368,600	3,368,600
TOTAL - ALL SOURCES	26,580,800	22,625,100	28,631,900

- ^{1/} Included in the Operating Lump Sum appropriation of \$12,180,300 for FY 2019 is \$5,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations.)
- ^{2/} Any transfer to or from the amount appropriated for the Election Services line item requires review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{3/} The FY 2018 appropriation from the Election Systems Improvement Fund for the Help America Vote Act is available for use until June 30, 2019.
- ^{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/} The amount appropriated for the Other Help America Vote Acts Projects line item is exempt from the provision of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2020. Before expending the monies, the Secretary of State shall submit an expenditure plan for review by the Joint Legislative Budget Committee that includes, at a minimum, the planned expenditures and timeline for expenditures by year. (General Appropriation Act footnote)
- ^{6/} This appropriation is exempt from the provisions A.R.S. § 35-190, relating to the lapsing of appropriations except that all monies remaining unexpended and unencumbered on December 31, 2018 revert to the state General Fund. (Laws 2018, Chapter 2)
- ^{7/} 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)
- ^{8/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

AGENCY DESCRIPTION — The Secretary of State is an elected Constitutional Officer. The Department of State is responsible for recordings and filings under the Uniform Commercial Code (U.C.C.); coordinating statewide elections; receiving campaign filings; registering trade names, trademarks and limited partnerships; appointing notaries public; and certifying certain telemarketing and charitable solicitation organizations, and provides administrative support for the Commission on Uniform State Laws. In addition, the Department is the archival authority and designated repository for historical records and documents of state and local governments, as well as a designated federal document regional repository.

Operating Budget

The budget includes \$12,180,300 and 141.1 FTE Positions in FY 2019 for the operating budget.

These amounts consist of:

	<u>FY 2019</u>
General Fund	\$11,435,900
Record Services Fund	744,400

FY 2019 adjustments are as follows:

Remove One-Time Operating Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2019 for one-time department expenses.

Statewide Adjustments

The budget includes an increase of \$486,800 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	494,200
Record Services Fund	(7,400)

(Please see the Agency Detail and Allocations section.)

Election Services

The budget includes \$4,000,000 in FY 2019 for Election Services. This amount consists of:

General Fund	3,384,500
Record Services Fund	500,000
Data Processing Acquisition Fund	115,500

FY 2019 adjustments are as follows:

Election Year Funding

The budget includes an increase of \$4,000,000 in FY 2019 for election year funding. This amount consists of:

General Fund	3,384,500
Record Services Fund	500,000
Data Processing Acquisition Fund	115,500

This adjustment funds the statewide primary election on August 28, 2018 and the General Election on November 6, 2018. The FY 2019 Budget Procedures Budget Reconciliation Bill (Laws 2018, Chapter 279) allows the Record Services Fund and the Data Processing Acquisition Fund to be used for election services. The FY 2018 budget included no monies because there was no scheduled statewide election, and the FY 2017 monies funded the state's expenses for the Primary Election held on August 30, 2016 and the General Election on November 8, 2016 in FY 2017.

Due to a vacancy occurring, a special election in the 8th Congressional District was conducted in FY 2018. *(Please see the Special Election line item.)*

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 no funding from the Election Systems Improvement Fund in FY 2019 for the Help America Vote Act (HAVA) (P.L. 107-252). FY 2019 adjustments are as follows:

Eliminate HAVA Line Item

The budget includes a decrease of \$(2,941,100) from the Election Systems Improvement Fund in FY 2019 for the removal of this line item. The budget includes 2 new line items for the expenditure of monies from the Election Systems Improvement Fund.

The recent federal budget includes new monies for HAVA projects and to increase elections security. Arizona will receive \$7,463,700 from the federal government. This new money is appropriated to 2 new line items in the FY 2019 budget: Other Help America Vote Act Projects and Statewide Voter Registration System.

In FY 2018, SOS will use \$1,495,600 of previously available HAVA funds for the new statewide voter registration system. *(Please see the Statewide Voter Registration System line item.)*

Statewide Adjustments

The budget includes a decrease of \$(2,600) from the Election Systems Improvement Fund in FY 2019 for statewide adjustments.

Library Grants-in-Aid

The budget includes \$651,400 from the General Fund in FY 2019 for Library Grants-in-Aid. This amount is unchanged from FY 2018.

This line item funds 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.

Other Help America Vote Act Projects

The budget includes \$5,400,400 from the Election Systems Improvement Fund in FY 2019 for monies for HAVA projects and to improve elections security. FY 2019 adjustments are as follows:

Unallocated HAVA Monies

The budget includes an increase of \$5,400,400 from the Election Systems Improvement Fund in FY 2019 for projects that improve the conduct of elections and elections security.

HAVA is federal election reform legislation from 2002 that imposes several requirements on the states with respect to the conduct of federal elections. Arizona will receive \$7,463,700 from a new allocation from the federal government.

Of the \$7,463,700, the budget allocated \$5,400,400 to the Other Help America Vote Act Projects line item. The Other Help America Vote Act Projects and Statewide Voter Registration System line items will be used to fulfill projects that further the goals of HAVA or improve election security. A General Appropriation Act footnote

requires the Secretary of State to submit an expenditure plan for review by the JLBC for the monies in this line item, and the monies are non-lapsing until June 30, 2020.

Special Election

The budget includes no funding from the General Fund in FY 2019 for special elections. FY 2019 adjustments are as follows:

Eliminate Special Election Monies

The budget includes a decrease of \$(2,500,000) from the General Fund in FY 2019 for the elimination of special election monies for a special congressional election held in FY 2018.

Due to a vacancy occurring, a special election in the 8th Congressional District was held during FY 2018. The special Primary Election was held on February 27, 2018 and the special General Election on April 24, 2018. The election was conducted in Maricopa County. Laws 2018, Chapter 2 appropriated \$2,500,000 from the General Fund to the Secretary of State to reimburse expenses incurred by Maricopa County for the administration of the special election such as the printing of ballots, election materials, as well as other costs to administer the election.

The monies displayed for FY 2017 are for a statewide special election held in May 2016 to consider Proposition 123 and Proposition 124. In FY 2016, the Legislature appropriated \$9,300,000 from the General Fund to pay for the elections. The appropriation for the May 2016 special election was exempt from lapsing.

As of the end of FY 2016, no monies had been expended from this line item. Most claims related to the special election were paid in FY 2017 with the displayed FY 2017 spending totaling \$6,255,600 for reimbursed claims, and an additional \$81,773.70 being expended in FY 2018. The Secretary of State expended a total of \$6,337,373.70 of the appropriation, and the enacted budget reverted the remaining \$2,962,626.30 to the state General Fund on June 30, 2018.

Statewide Radio Reading Service for the Blind

The budget includes \$97,000 from the General Fund in FY 2019 for Statewide Radio Reading Service for the Blind. This amount is unchanged from FY 2018.

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.

Statewide Voter Registration System

The budget includes \$2,063,300 from the Election Systems Improvement Fund in FY 2019 for development of a new statewide voter registration system. FY 2019 adjustments are as follows:

New Voter Registration System

The budget includes an increase of \$2,063,300 from the Election Systems Improvement Fund in FY 2019 for the second-year costs of developing a new voter registration system.

The voter registration database will replace technology from the late 1990s that facilitates the exchange of voter registration data between the counties and the Secretary of State. This new system will serve as the primary database for 13 counties and will connect to the Pima County and the Maricopa County databases. The Secretary of State estimates the total costs for developing the new system at \$3,558,900. This includes \$3,000,000 to develop the system, and the remaining monies for a third-party consultant to manage the project. During FY 2018, the Secretary of State's Office intends to fund the first-year costs of \$1,495,600 from previously available HAVA funds. The FY 2018 allocation plus the new FY 2019 appropriation will provide the total of \$3,558,900.

This line item includes funding from a new allocation of \$7,463,700 in federal monies for HAVA to the State of Arizona. *(Please see the Help America Vote Act (HAVA) line item and the Other Help America Vote Act Projects line item for a discussion of these monies.)*

Other Issues

FY 2018 Supplemental

Laws 2018, Chapter 2 appropriated \$2,500,000 from the General Fund in FY 2018 for the costs of holding a special election to fill a congressional seat. *(Please see the Special Election line item for more detail.)*

Additional Legislation

Eliminate Arizona Blue Book Revolving Fund

The Secretary of State was required to produce an official state manual known as the Arizona Blue Book. This manual included information regarding the Executive, Legislative, and Judicial branches of government and boards and commissions of state. Laws 2018, Chapter

178 repeals the biennial requirement for the Secretary of State to publish the book and the associated Arizona Blue Book Revolving Fund. The remaining balance of \$11,200 transfers to the General Fund. Laws 2018, Chapter 178 also included other changes related to the rulemaking process and the publication of the Arizona Administrative Code and other legal notices.

Litigation Costs

The budget appropriated to the Attorney General an FY 2018 supplemental of \$500,000 from the Risk Management Revolving Fund and a one-time appropriation of \$500,000 in FY 2019 from the Risk Management Revolving Fund for election litigation expenses concerning the Secretary of State. *(Please see the Attorney General section for more information.)*

State Board of Tax Appeals

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	172,300	179,000	179,000
Employee Related Expenditures	54,200	57,400	57,500
Travel - In State	300	400	400
Other Operating Expenditures	39,600	42,600	43,500
AGENCY TOTAL	266,400	279,400	280,400^{1/}
FUND SOURCES			
General Fund	266,400	279,400	280,400
SUBTOTAL - Appropriated Funds	266,400	279,400	280,400
TOTAL - ALL SOURCES	266,400	279,400	280,400

AGENCY DESCRIPTION — The board consists of 3 members appointed by the Governor. The board provides an independent appeals process for taxpayers with disputes relating to income, sales, use, estate, and luxury tax decisions from the Department of Revenue and resolves jurisdictional disputes between municipalities regarding the imposition of transaction privilege and use taxes.

Operating Budget

The budget includes \$280,400 and 4 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Continue Increased ERE Funding

The budget continues an increase of \$11,100 from the General Fund in FY 2019 for increased Employee Related Expenditures. The budget appropriated this amount to the agency as an FY 2018 supplemental and continues this funding in FY 2019.

Statewide Adjustments

The budget includes an increase of \$1,000 from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation of \$11,100 from the General Fund for increased Employee Related Expenditures due to the retirement and replacement of a long-time employee who opted out of the employee benefits program.

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

State Board of Technical Registration

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.0	25.0	25.0
Personal Services	994,000	1,106,400	1,106,400
Employee Related Expenditures	446,600	468,300	456,400
Professional and Outside Services	33,100	228,600	293,600
Travel - In State	4,500	5,000	5,000
Travel - Out of State	23,700	17,200	17,200
Other Operating Expenditures	638,400	408,200	413,100
Equipment	124,700	0	0
AGENCY TOTAL	2,265,000	2,233,700	2,291,700^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Technical Registration Fund	2,265,000	2,233,700	2,291,700
SUBTOTAL - Other Appropriated Funds	2,265,000	2,233,700	2,291,700
SUBTOTAL - Appropriated Funds	2,265,000	2,233,700	2,291,700
Other Non-Appropriated Funds	293,300	33,400	33,400
TOTAL - ALL SOURCES	2,558,300	2,267,100	2,325,100

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 \$2,291,700 and 25 FTE Positions from the Technical Registration Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

E-Licensing Operating Costs

The budget includes an increase of \$65,000 from the Technical Registration Fund in FY 2019 for the board's share of ongoing operational costs for the board's E-Licensing system.

Statewide Adjustments

The budget includes a decrease of \$(7,000) from the Technical Registration Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.0	28.0	28.0
Personal Services	1,609,900	1,857,100	1,857,100
Employee Related Expenditures	555,400	616,400	616,400
Professional and Outside Services	2,355,100	2,162,900	2,162,900
Travel - In State	13,800	11,800	11,800
Travel - Out of State	155,200	150,200	150,200
Other Operating Expenditures	2,300,100	2,213,300	2,213,300
Equipment	106,300	100,300	100,300
AGENCY TOTAL	7,095,800	7,112,000	7,112,000^{1/}
FUND SOURCES			
General Fund	7,095,800	7,112,000	7,112,000
SUBTOTAL - Appropriated Funds	7,095,800	7,112,000	7,112,000
Other Non-Appropriated Funds	14,120,700	14,650,600	14,650,600
TOTAL - ALL SOURCES	21,216,500	21,762,600	21,762,600

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 2019 for the operating budget. These amounts are unchanged from FY 2018.

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 \$1.5 million 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 \$100.0 million 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 \$1.5 million in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, for a total General Fund cost of \$45.0 million.

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

^{1/} General Appropriation Act funds are appropriated as a Lump Sum in the form of a deposit to the Tourism Fund.

renovations to the raceway. PIR was renamed ISM Raceway in January 2018.

Located in Avondale, ISM Raceway hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to ISM Raceway began in February 2017 and are expected to be completed by November 2018. As of May 2018, ISM Raceway has not requested certification of its expenditures.

Office of Tourism Revenues ^{1/}					
<u>Sources of Funding</u>	<u>Fund</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	
<u>General Fund Appropriation</u>					
• General Fund appropriation to be used administering the Office of Tourism and promoting tourism	General Fund	\$7,112,000	\$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	7,927,200	8,250,600	8,612,700	
<u>Tribal Gaming</u>					
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202 - 2002)	Tourism Fund	<u>6,396,700</u>	<u>6,691,100</u>	<u>6,691,100</u> ^{2/}	
Total		\$21,435,900	\$22,053,700	\$22,415,800	
^{1/} The numbers displayed represent revenues to the agency and may not correspond directly with the agencies' actual expenditure or appropriation amounts. ^{2/} The Tribal Gaming amounts for FY 2019 are JLBC estimates.					

Department of Transportation

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,552.0	4,552.0	4,552.0 ^{1/}
Personal Services	104,717,200	108,096,500	108,030,200
Employee Related Expenditures	45,985,400	50,558,400	48,966,300
Professional and Outside Services	10,389,800	10,968,800	11,680,900
Travel - In State	918,000	1,154,500	1,152,500
Travel - Out of State	179,000	188,400	188,300
Other Operating Expenditures	18,742,200	21,782,300	21,328,600
Equipment	18,122,000	15,956,400	15,396,900
OPERATING SUBTOTAL	199,053,600	208,705,300	206,743,700
SPECIAL LINE ITEMS			
Attorney General Legal Services	3,477,700	3,577,700	3,623,700 ^{2/}
Authorized Third Parties	0	0	2,013,700
Driver Safety and Livestock Control	0	2,400,000	800,000
Flagstaff Building Equipment	0	2,530,000 ^{3/}	0
Fraud Investigation	744,200	781,900	0
Highway Damage Recovery Account	0	0	4,000,000
Highway Maintenance	132,650,600	147,108,200	163,367,900 ^{4/5/}
New Third-Party Funding	554,600	634,900	0
Northwest Valley Transit System Planning	0	0	65,000 ^{6/}
Phoenix Area Freeway Lighting	1,499,900	1,500,000	0
Statewide Drainage Structures	4,300,000	4,300,000	0
Vehicle Replacement	0	0	15,300,000 ^{7/}
Vehicles and Heavy Equipment	16,888,200	18,726,300	18,609,300
Grand Canyon Airport Projects	0	466,000	0
AGENCY TOTAL	359,168,800	390,730,300	414,523,300 ^{8/-13/}
FUND SOURCES			
General Fund	49,800	50,500	65,000
<u>Other Appropriated Funds</u>			
Air Quality Fund	161,600	161,700	324,100
Driving Under the Influence Abatement Fund	149,300	153,400	153,100
Highway Damage Recovery Account	0	3,000,000	4,000,000
Highway User Revenue Fund	602,200	656,100	654,400
Ignition Interlock Device Fund	0	0	150,000
Motor Vehicle Liability Insurance Enforcement Fund	1,295,200	1,332,400	1,720,600
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,832,600	1,897,400	1,482,000
State Aviation Fund	1,573,500	2,103,100	1,829,000
State Highway Fund	335,181,400	361,185,000	384,073,200
Transportation Department Equipment Fund	16,888,200	18,726,300	18,609,300
Vehicle Inspection and Certificate of Title Enforcement Fund	1,435,000	1,464,400	1,462,600
SUBTOTAL - Other Appropriated Funds	359,119,000	390,679,800	414,458,300
SUBTOTAL - Appropriated Funds	359,168,800	390,730,300	414,523,300
Other Non-Appropriated Funds	54,271,700	55,954,800	56,254,100
Federal Funds	1,995,000	1,995,000	1,995,000
TOTAL - ALL SOURCES	415,435,500	448,680,100	472,772,400

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 \$206,743,700 and 3,400 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
Air Quality Fund	\$324,100
Driving Under the Influence (DUI) Abatement Fund	153,100
Highway User Revenue Fund	455,900
Ignition Interlock Device Fund	150,000
Motor Vehicle Liability Insurance Enforcement Fund	1,621,200
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	922,000
State Aviation Fund	1,829,000
State Highway Fund	199,913,500
Vehicle Inspection and Certificate of Title Enforcement Fund	1,374,900

FY 2019 adjustments are as follows:

- 1/ Includes 1,152 OF FTE Positions funded from Special Line Items in FY 2019.
- 2/ 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 the operating lump sum appropriation or other line items intended for this purpose shall be transferred to the Attorney General Legal Services line item before expenditure. (General Appropriation Act footnote)
- 3/ Notwithstanding Laws 2017, Chapter 305, Section 92, the \$2,530,000 appropriated to the Department of Transportation by Laws 2017, Chapter 305, Section 92 from the State Highway Fund for the Flagstaff Building Equipment line item is exempt from provisions of A.R.S. § 35-190 relating to lapsing of appropriations, through June 30, 2019. (General Appropriation Act footnote)
- 4/ Of the total amount appropriated, \$163,367,900 in FY 2019 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, 2019. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 5/ 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)
- 6/ The sum of \$65,000 is appropriated from the state General Fund in FY 2019 to the Department of Transportation for distribution to the Maricopa Association of Governments to establish and maintain an intergovernmental cooperative agreement to administer and plan a Northwest Valley transit system. (General Appropriation Act footnote)
- 7/ Expenditures made by the Department of Transportation for vehicle and heavy equipment replacement shall be funded only from the Vehicle Replacement line item. Monies in the operating lump sum appropriation or other line items intended for this purpose shall be transferred to the Vehicle Replacement line item before expenditure. (General Appropriation Act footnote)
- 8/ 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)
- 9/ Of the total amount appropriated, the Department of Transportation shall pay \$15,981,300 in FY 2019 from all funds to the Department of Administration for its Risk Management payment. (General Appropriation Act footnote)
- 10/ 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, 2019 for FY 2019. (General Appropriation Act footnote)
- 11/ 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, 2019, 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)
- 12/ On or before August 1, 2018, the department shall report to the Director of the Joint Legislative Budget Committee 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)
- 13/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Shifts in Resources

The budget includes a decrease of \$(3,385,900) and an increase of 10 FTE Positions in FY 2019 for shifts in resources between the operating budget and line items. This amount consists of:

State Aviation Fund	201,000
State Highway Fund	(3,586,900)

These changes include the following shifts:

- A decrease of \$(2,983,500) from the State Highway Fund for a shift in resources to the new Vehicle Replacement line item. This decrease corresponds to the amount that the department allocates from its operating budget for its average annual lease obligation for vehicle and heavy equipment replacement.
- An increase of \$201,000 from the State Aviation Fund for a shift in resources from the Grand Canyon Airport Projects line item to the operating budget. This amount supports maintenance of an airplane

monitoring system, continued replacement of firefighter equipment, and runway maintenance.

- An increase of \$767,000 and 10 FTE Positions from the State Highway Fund for a shift in resources from the Fraud Investigation line item to the operating budget.
- A decrease of \$(1,370,400) from the State Highway Fund for a shift in resources to the new Authorized Third Parties line item.

Please see *Table 1* below for a summary of these operating budget adjustments.

Table 1
Operating Budget Adjustments for Resource Shifts

Line Item	Amount	FTE	Fund ^{1/}
Vehicle Replacement	\$(2,983,500)	-	SHF
Grand Canyon Airport Projects	201,000	-	SAF
Fraud Investigation	767,000	10	SHF
Authorized Third Parties	<u>(1,370,400)</u>	-	SHF
Total	\$(3,385,900)	10	

^{1/} SHF = State Highway Fund. SAF = State Aviation Fund.

(Please see the Vehicle Replacement, Grand Canyon Airport Projects, Fraud Investigation and Authorized Third Parties line item sections for more information.)

One-Time ITS Equipment Replacement

The budget includes a one-time increase of \$1,500,000 from the State Highway Fund in FY 2019 for equipment upgrades to the department's statewide intelligent traffic system (ITS). The ITS uses 95 dynamic message signs (DMS), closed-circuit cameras and roadway weather information systems (RWIS) to monitor incidents that adversely affect highway safety and efficiency. As detailed by unit and cost in *Table 2*, the department will purchase DMSs with LED bulbs for greater visibility, HD digital cameras, RWISs with pavement temperature detection, and a software upgrade.

Table 2
ITS Upgrade Summary

	Units	Cost/Unit	Total Cost
DMSs	18	\$41,000	\$ 738,000
HD Cameras	29	6,000	174,000
RWISs	7	70,000	490,000
Software	1	98,000	<u>98,000</u>
Total			\$1,500,000

Private Cybersecurity Services

The budget includes an increase of \$800,000 from the State Highway Fund in FY 2019 for contracted private cybersecurity services. ADOT currently supplements staff cybersecurity with ADOA/ASET-provided services to maintain the integrity of private personal data stored in ADOT databases. To address increased cybersecurity risks, the department plans to acquire privately managed security services, which would defend hacking attempts, ensure audit compliance, enhance data security, and respond to cybersecurity incidents.

One-Time Ehrenburg Port of Entry Equipment

The budget includes a one-time increase of \$528,500 from the State Highway Fund in FY 2019 for equipment and furnishings for its Ehrenburg Port of Entry administrative building. The Ehrenburg Port of Entry monitors commercial traffic entering the state. ADOT used federal funding to demolish the existing facility and build a new one, but those Federal Funds may not be used for furnishing and equipment. The funds will be used for office equipment, workstations, sleeping quarters, conference room furnishings, holding cell security systems, and other equipment. Of the \$528,500 amount, \$459,500 will be used for furnishings, technology and equipment and \$69,000 for design, installation and delivery.

One-Time Ports of Entry Security Enhancement

The budget includes a one-time increase of \$405,700 from the State Highway Fund in FY 2019 for improvements to 6 ports of entry statewide. An ADOT security vulnerability assessment conducted at the ports of entry at St. George, Topock (inbound), Topock (outbound), Sanders (inbound), Sanders (outbound), Kingman and Teec Nos Pos found insufficient security standards. The funding will be used to purchase alarm systems, cabling and hardware, cameras and software.

Funding Shifts

The budget includes an increase of \$600,300 and a corresponding decrease of \$(600,300) in FY 2019 for funding shifts with no net overall impact. This amount consists of:

General Fund	(50,400)
Air Quality Fund	50,400
Ignition Interlock Device Fund	150,000
Motor Vehicle Liability Insurance Enforcement Fund	399,900
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	(399,900)
State Highway Fund	(150,000)

Increased SSO Grant Match

The budget includes an increase of \$112,000 from the Air Quality Fund in FY 2019 to draw down the full amount of available federal grants for its State Safety Oversight (SSO) Program. The Federal Transit Administration (FTA) requires states to administer safety oversight programs as it relates to rail transit systems. ADOT serves as the state's SSO entity and funds that program through an \$88,000 Air Quality Fund appropriation, used for an 80/20 federal match. The increase will provide the department \$200,000 in Air Quality Fund monies to draw down \$800,000 in federal funding, for a total annual funding of \$1,000,000 for its SSO program. The increased funding will be used to hire consultants to conduct reviews of Valley Metro and SunLink, conduct inspections of new service or extensions, and develop an annual report. In FY 2023, the backlog of available Federal Funds is estimated to be depleted and the department reports that it will request to reduce its Air Quality Fund appropriation for the SSO program to \$150,000.

Decreased Special Plate Production

The budget includes a decrease of \$(350,000) from the State Highway Fund in FY 2019 for decreased production of special plates. The FY 2019 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 279) eliminated statutory language requiring ADOT to send purchasers of certain special plates a pair of plates rather than a single plate.

Green Valley MVD Relocation

The budget includes an increase of \$132,000 from the State Highway Fund in FY 2019 for increased lease costs for its relocated Green Valley MVD office. The existing Green Valley MVD office is a 1,700 square foot modular building, leased by Pima County to ADOT for \$6,600 a year. ADOT is moving its Green Valley MVD to a privately-leased 3,500 square foot office. The \$132,000 increase combined with the available \$6,600 base amount provides \$138,600 for the office's annual lease payment. That amount includes \$78,800 for base rent, \$40,000 for 5-year amortized tenant improvements and \$19,800 for utilities.

Named Claimants

The budget includes a decrease of \$(54,189.92) from the State Highway Fund in FY 2019 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Statewide Adjustments

The budget includes a decrease of \$(1,649,700) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(100)
DUI Abatement Fund	(300)
Highway User Revenue Fund	(3,100)
Motor Vehicle Liability Insurance Enforcement Fund	(12,200)
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	(15,500)
State Aviation Fund	(9,100)
State Highway Fund	(1,607,900)
Vehicle Inspection and Certificate of Title Enforcement Fund	(1,500)

(Please see the Agency Detail and Allocations section.)

Attorney General Legal Services

The budget includes \$3,623,700 from the State Highway Fund in FY 2019 for Attorney General Legal Services. FY 2019 adjustments are as follows:

ISA Cost Increase

The budget includes an increase of \$46,000 from the State Highway Fund in FY 2019 for increased Attorney General interagency service agreements (ISA) costs. Due to vacancies at the Attorney General in the positions covered by the ISA, the line item's appropriation has been sufficient to pay ADOT's bills. The increase will ensure that the line item is sufficient should those vacancies be filled.

This line item funds 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.

Authorized Third Parties

The budget includes \$2,013,700 and 20 FTE Positions in FY 2019 for a new Authorized Third Parties line item. These amounts consist of:

Highway User Revenue Fund	198,500
Motor Vehicle Liability Insurance Enforcement Fund	99,400
State Highway Fund	1,628,100
Vehicle Inspection and Certificate of Title Enforcement Fund	87,700

Shifts in Resources

The budget includes an increase of \$2,000,000 and 20 FTE Positions in FY 2019 for shifts in resources between the operating budget, other line items and the new Authorized Third Parties line item. These amount consist of:

Highway User Revenue Fund	197,100
Motor Vehicle Liability Insurance Enforcement Fund	98,900
State Highway Fund	1,616,900
Vehicle Inspection and Certificate of Title Enforcement Fund	87,100

These changes include the following shifts:

- An increase of \$629,600 and 20 FTE Positions for a shift in resources from the New Third-Party Funding line item to the new Authorized Third Parties line item.
- An increase of \$1,370,400 from the State Highway Fund for a shift in resources from the operating budget to the new Authorized Third Parties line item.

Statewide Adjustments

The budget includes an increase of \$13,700 in FY 2019 for statewide adjustments. This amount consists of:

Highway User Revenue Fund	1,400
Motor Vehicle Liability Insurance Enforcement Fund	500
State Highway Fund	11,200
Vehicle Inspection and Certificate of Title Enforcement Fund	600

This line item funds the oversight of authorized third-parties (ATPs), which can include training and educating ATPs, reviewing ATP transactions for accuracy and evaluating ATP applications. ATPs offer services for vehicle title, registrations and driver licenses, either through 160 brick-and-mortar locations or through the online ServiceArizona portal.

Driver Safety and Livestock Control

The budget includes \$800,000 from the State Highway Fund in FY 2019 for Driver Safety and Livestock Control. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,600,000) from the State Highway Fund in FY 2019 for the elimination of one-time funding.

This line item funds the annual maintenance and repair of statewide cattle guard grills. To prevent livestock movement from harming drivers and bicyclists, 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.

Flagstaff Building Equipment

The budget includes no funding from the State Highway Fund in FY 2019 for Flagstaff Building Equipment. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,530,000) from the State Highway Fund in FY 2019 the elimination of one-time funding.

This line item provided funding for furnishing and equipment at ADOT's new Northcentral District Regional Office in Flagstaff. Through an agreement with the City of Flagstaff and a real-estate developer, ADOT 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.

Due to rezoning issues for the real-estate developer's planned development on Milton Road, final contract negotiations have been delayed. The FY 2019 General Appropriation Act extends the lapsing date of the FY 2018 appropriation to the end of FY 2019 to account for that delay.

Fraud Investigation

The budget includes no funding from the State Highway Fund in FY 2019 for Fraud Investigation. FY 2019 adjustments are as follows:

Shift to Operating Budget

The budget includes a decrease of \$(767,000) and (10) FTE Positions from the State Highway Fund in FY 2019 for a shift in resources from the Fraud Investigation line item to the operating budget.

Statewide Adjustments

The budget includes a decrease of \$(14,900) from the State Highway Fund in FY 2019 for statewide adjustments.

This line item funded the investigation of fraudulent driver licenses and motor vehicle documents.

Highway Damage Recovery Account

The budget includes \$4,000,000 from the Highway Damage Recovery Account in FY 2019 for a new Highway Damage Recovery Account line item. FY 2019 adjustments are as follows:

Special Line Item Shift

The budget includes an increase of \$3,000,000 from the Highway Damage Recovery Account in FY 2019 for a shift in resources from the Highway Maintenance line item to the new Highway Damage Recovery Account line item. *(Please see the Highway Maintenance line item for more information.)*

Increase Appropriation to Match Collections

The budget includes an increase of \$1,000,000 from the Highway Damage Recovery Account in FY 2019 to allow the department to spend the full amount of its highway damage reimbursements on highway maintenance. The department projects highway damage reimbursement collections of \$4,000,000 in FY 2019.

This line item also funds the maintenance of the state highway system beyond that which is provided by the Highway Maintenance line item. The Highway Damage Recovery Account collects all monies received as reimbursements for highway damage caused by liable third parties; those monies are used to repair that damage.

Highway Maintenance

The budget includes \$163,367,900 and 932 FTE Positions in FY 2019 for Highway Maintenance. These amounts consist of:

Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	560,000
State Highway Fund	162,807,900

FY 2019 adjustments are as follows:

Shifts in Resources

The budget includes a decrease of \$(9,516,500) in FY 2019 for shifts in resources between the Highway Maintenance line item and other line items. This amount consists of:

State Highway Fund	(6,516,500)
Highway Damage Recovery Account	(3,000,000)

These changes include the following shifts:

- A decrease of \$(12,316,500) from the State Highway Fund for a shift in resources to the new Vehicle Replacement line item. This decrease corresponds to the amount that the department allocates from its Highway Maintenance line item for its average annual lease obligation for vehicle and heavy equipment replacement.

- A decrease of \$(3,000,000) from the Highway Damage Recovery Account for a shift in resources to the new Highway Damage Recovery Account line item.
- An increase of \$1,500,000 from the State Highway Fund for a shift in resources from the Phoenix Area Freeway Lighting line item to the Highway Maintenance line item.
- An increase of \$4,300,000 from the State Highway Fund for a shift in resources from the Statewide Drainage Structures line item to the Highway Maintenance line item.

Please see *Table 3* below for a summary of these line item adjustments.

<u>Line Item</u>	<u>Amount</u>	<u>Fund</u> ^{1/}
Vehicle Replacement	\$(12,316,500)	SHF
Highway Damage Recovery Account	(3,000,000)	HDRA
Phoenix Area Freeway Lighting	1,500,000	SHF
Statewide Drainage Structures	<u>4,300,000</u>	SHF
Total	\$ (9,516,500)	

^{1/} SHF = State Highway Fund. HDRA = Highway Damage Recovery Account.

(Please see the Vehicle Replacement, Highway Damage Recovery Account, Phoenix Area Freeway Lighting and Statewide Drainage Structures line item sections for more information.)

Preventative Road Surface Treatments

The budget includes an increase of \$25,606,800 from the State Highway Fund in FY 2019 for preventative road surface treatments. ADOT reports that the condition of highway roads has deteriorated in terms of cracking, smoothness and raveling. This amount, combined with the \$15,000,000 available to ADOT for road surface treatments, would fund fog seals and chip seals for the state's 21,352 highway lane miles. Fog seals, or spraying liquid asphalt, last 2 years at \$3,000 per lane mile and chip seals, or laying down gravel layers, last 7 years at \$36,000 per lane mile. These measures proactively treat surfaces to maintain the useful life of roads.

Highway Maintenance Workload

The budget includes an increase of \$642,100 from the State Highway Fund in FY 2019 to maintain and operate 13 new urban lane miles and 68 new rural lane miles.

Statewide Adjustments

The budget includes a decrease of \$(472,700) from the State Highway Fund in FY 2019 for statewide adjustments.

This line item funds the maintenance of 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.

In addition to the \$163,367,900 included for Highway Maintenance, the Proposition 400 Maricopa County half-cent sales tax extension makes another \$13,500,000 available in FY 2019 for landscape maintenance, trash pick-up, sweeping, and litter education from the non-appropriated Maricopa Regional Area Road Fund.

New Third-Party Funding

The budget includes no funding in FY 2019 for New Third-Party Funding. FY 2019 adjustments are as follows:

Special Line Item Shift

The budget includes a decrease of \$(629,600) and (20) FTE Positions in FY 2019 for a shift in resources from the New Third-Party Funding line item to the new Authorized Third Parties line item. These amounts consist of:

Highway User Revenue Fund	(197,100)
Motor Vehicle Liability Insurance Enforcement Fund	(98,900)
State Highway Fund	(246,500)
Vehicle Inspection and Certificate of Title Enforcement Fund	(87,100)

Statewide Adjustments

The budget includes a decrease of \$(5,300) in FY 2019 for statewide adjustments. This amount consists of:

State Highway Fund	(4,400)
Vehicle Inspection and Certificate of Title Enforcement Fund	(900)

This line item funded the review of third-party transactions for accuracy. The funding also provided support for authorized third parties. By shifting this line item to the Authorized Third Parties line item, the department's expenditures on ATPs will be consolidated into a single line item.

Northwest Valley Transit System Planning

The budget includes \$65,000 from the General Fund in FY 2019 for Northwest Valley transit system planning. FY 2019 adjustments are as follows:

One-Time Distribution

The budget includes a one-time increase of \$65,000 from the General Fund in FY 2019 for a distribution to the Maricopa Association of Governments to establish and maintain a cooperative agreement for the administration and planning of a Northwest Valley transit system. The funds are intended to be used for contract management, grant application costs, RFP issuance, and other activities related to the system's planning.

Phoenix Area Freeway Lighting

The budget includes no funding from the State Highway Fund in FY 2019 for Phoenix Area Freeway Lighting. FY 2019 adjustments are as follows:

Special Line Item Shift

The budget includes a decrease of \$(1,500,000) from the State Highway Fund in FY 2019 for a shift in resources to the Highway Maintenance line item. This line item excluded some monies spent on freeway lighting and resulted in administrative inefficiencies.

This line item funded the maintenance of approximately 15,000 freeway lights in the Phoenix Metropolitan area.

Statewide Drainage Structures

The budget includes no funding from the State Highway Fund in FY 2019 for statewide drainage structures. FY 2019 adjustments are as follows:

Special Line Item Shift

The budget includes a decrease of \$(4,300,000) from the State Highway Fund in FY 2019 for a shift in resources to the Highway Maintenance line item. This line item excluded some monies spent on drainage structures and resulted in administrative inefficiencies.

This line item funded the removal of silt in pipes, culverts and drainage structures. Drainage structures prevent flooding and degradation of the state highway system.

Vehicle Replacement

The budget includes \$15,300,000 from the State Highway Fund in FY 2019 for a new Vehicle Replacement line item. FY 2019 adjustments are as follows:

Vehicle and Heavy Equipment Replacement

The budget includes an increase of \$15,300,000 from the State Highway Fund in FY 2019 for vehicle and heavy equipment replacement. This funding is offset by a corresponding decrease to the operating budget and Highway Maintenance line item.

ADOT currently finances replacements for its Vehicle and Heavy Equipment fleet through 5-year third-party lease agreements paid from the operating budget and Highway Maintenance line item. The department has an average annual lease payment obligation of \$15,300,000 through these agreements. Prior to this line item, the \$15,300,000 total lease obligation was paid \$2,983,500 from the operating budget and \$12,316,500 from the Highway Maintenance line item. A General Appropriation Act footnote requires vehicle and heavy equipment replacement to be funded only from this line item.

In addition to the amount in this line item, of the \$56,600,000 in the state's Volkswagen Settlement monies, ADOT will use \$12,523,500 to finance purchases of efficient diesel fuel vehicles over a multi-year period.

Vehicles and Heavy Equipment

The budget includes \$18,609,300 and 200 FTE Positions from the Transportation Department Equipment Fund in FY 2019 for Vehicles and Heavy Equipment. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(117,000) from the Transportation Department Equipment Fund in FY 2019 for statewide adjustments.

This line item funds the maintenance and repair of the department's vehicle and equipment fleet. The Transportation Department Equipment Fund also has a non-appropriated portion, which is used to provide maintenance and repairs to other agencies and local governments through ISAs and IGAs, which is not reflected in the above amount.

Grand Canyon Airport Projects

The budget includes no funding in FY 2019 for Grand Canyon Airport Projects. FY 2019 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(265,000) from the State Aviation Fund in FY 2019 for the elimination of one-time funding including an airplane monitoring system to ensure proper charging of customer fees, firefighter equipment replacement, and security system improvements.

Operating Budget Shift

The budget includes a decrease of \$(201,000) from the State Aviation Fund in FY 2019 for a shift in resources from the Grand Canyon Airport Projects line item to the

operating budget. This line item funds purposes similar to those in the operating budget and resulted in administrative inefficiencies.

This amount supports maintenance of the monitoring system, continued replacement of firefighter equipment, and runway maintenance.

Other Issues

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental appropriation \$54,189.92 from the State Highway Fund to pay a named claimant bill related to ADOT. The supplemental appropriation was made in Laws 2018, Chapter 215.

Additional Legislation

Highway Safety Fee

Laws 2018, Chapter 265 implements a highway safety fee to be paid at the time of annual vehicle registration. The fee will raise revenues equal to 110% of the Department of Public Safety highway patrol budget. The fee is expected to generate \$91 million in FY 2019 and \$183 million annually starting in FY 2020. Fee revenues are deposited into the Highway Patrol Fund. *(Please see the Department of Public Safety narrative for more information.)*

Alternative Fuel Vehicle VLT Rate Modification

For each year of a vehicle's registration, the vehicle owner pays the constitutionally-required vehicle license tax (VLT). Current law sets the VLT rate for all alternative fuel vehicles at \$4 for each \$100 of the vehicle's value, where the vehicle's value is 1% of the manufacturer's base retail price, depreciating by 15% each year.

Laws 2018, Chapter 265 modifies the alternative fuel vehicle VLT rate as follows: 1) For alternative fuel vehicles purchased before January 1, 2020, the value of the vehicle is a percentage set by the ADOT Director of the manufacturer's base retail price, not to exceed 10%, per legislative intent. 2) For alternative fuel vehicles purchased after January 1, 2020 that are 10,000 pounds or less, the value of the vehicle is 30% of the manufacturer's base retail price. 3) For alternative fuel vehicles purchased after January 1, 2020 that are over 10,000 pounds, the standard VLT rate will apply. The standard VLT rate in the first year is \$2.80 for each \$100 of the vehicle's value, where the vehicle's value is 60% of the manufacturer's base retail price. For each successive year, the standard VLT rate is \$2.89 for each \$100 of the

vehicle's value, where the vehicle's value is 16.25% less than the previous year's.

These changes are estimated to result in the following ranges of yearly revenue impacts, depending on the percentage set by the ADOT Director: a \$381,100 to \$2.2 million increase to the General Fund, a \$767,200 to \$4.3 million increase to the State Highway Fund and a \$2.4 million to \$13.4 million increase to local government distributions.

Motor Vehicle Dealer Enforcement Fund

Laws 2018, Chapter 308 establishes the appropriated Motor Vehicle Dealer Enforcement Fund. The fund earns revenues from civil penalties for licensed or unlicensed motor vehicle dealer infractions. Any unexpended or unencumbered balance in the fund over \$250,000 is deposited to the State Highway Fund.

MvM Project Status

The Motor Vehicle Modernization (MvM) Project is a custom software development project designed to enhance ADOT's Motor Vehicle Division operations. The project is funded through an agreement between ADOT and the ServiceArizona vendor, where the vendor retains roughly half of all transaction fees and deposits the remaining half into an account to be spent on the MvM project at ADOT's discretion. The project is estimated to be completed in FY 2020. ADOT has an annual option to sign a 1-year extension for the ServiceArizona agreement with the vendor. The maximum contract extension date is the end of FY 2021. At that point, any monies in the balance of ADOT's account with the ServiceArizona vendor will be turned over to ADOT. Upon completion of the project, ADOT will contract again for the operation of ServiceArizona. As of June 2018, \$35.4 million had been spent on the project out of a \$57.6 million budget.

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 2017, the special plate program generated \$2,895,000 for charities, \$6,949,600 for state agencies including universities, \$5,800 for HURF and \$3,662,300 for the State Highway Fund, for total revenues of \$13,512,700.

As shown in *Table 2*, there are 53 special plate types with 452,390 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.

There were no special plates added in 2018.

Table 2

Special License Plates ^{1/2/3/}

<u>Included in Statewide Special Plates Fund</u>		<u>Not Included in Statewide Special Plates Fund</u>	
<u>Name</u>	<u>Number of Plates Issued in FY 2017</u>	<u>Name</u>	<u>Number of Plates Issued in FY 2017</u>
AZ Professional Football Club	76,446	Veteran	82,772
Military Support/Scholarship	38,458	AZ Highways	29,680
AZ Professional Baseball Club	10,416	Collegiate - University of Arizona	24,432
Agricultural Youth Organization	10,119	Collegiate - AZ State University	18,587
AZ Centennial	9,945	Families of Fallen Police Officers	15,635
First Responder	9,457	Spaying and Neutering of Animals	14,097
Transplantation Awareness	5,199	Child Abuse Prevention	13,722
Historic Federal Highway	4,587	Golden Rule	11,745
AZ Professional Basketball Club	4,413	Breast & Cervical Cancer	11,171
AZ Professional Hockey Club	2,943	In God We Trust	11,050
Extraordinary Educators	2,145	AZ Sportsmen for Wildlife	8,978
Keep AZ Beautiful (anti-litter)	1,764	Environmental	8,517
Childhood Cancer Research	1,359	Fire Fighter	4,431
Volunteer Firefighters	1,146	Collegiate - NAU	2,881
AZ Motorsports Commemorative	1,108	Navajo Nation	2,413
Hunger Relief	933	Women Veteran	1,863
AZ Masonic Fraternity	709	Character Education	1,651
Regionally Accredited Institution	678	Choose Life	1,416
AZ Professional Golf	597	Fraternal Order of Police	836
Global Graduate Management	475	White Mountain Apache Tribe	529
Play Unified	389	San Carlos Apache	518
AZ Public Broadcast Television	372	Gold Star Family	459
Youth Development Organization	349	Farm Vehicle	334
Girls' Youth Organization	154	AZ Historical Society	144
Health Sciences Educational	130	University of Phoenix	118
Collegiate - Community College	<u>0</u>	National Guard	114
		Legion of Valor	<u>6</u>
Total	184,291	Total	268,099

^{1/} Excludes 88,122 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, Multiple Sclerosis Awareness and Don't Tread on Me special plates did not raise sufficient funds to implement the plates.

State Treasurer

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.4	31.4	31.4
Personal Services	1,842,000	1,987,200	1,987,200
Employee Related Expenditures	638,600	861,800	874,300
Professional and Outside Services	45,000	22,600	22,600
Travel - In State	200	2,000	2,000
Travel - Out of State	4,500	12,000	12,000
Other Operating Expenditures	260,800	265,000	302,700
Equipment	40,500	45,000	45,000
OPERATING SUBTOTAL	2,831,600	3,195,600	3,245,800
SPECIAL LINE ITEMS			
Justice of the Peace Salaries	1,205,100	1,205,100	1,205,100
Law Enforcement/Boating Safety Fund Grants	1,930,600	2,183,800	2,183,800
AGENCY TOTAL	5,967,300	6,584,500	6,634,700 ^{1/}
FUND SOURCES			
General Fund	1,205,100	1,205,100	1,205,100
<u>Other Appropriated Funds</u>			
Law Enforcement and Boating Safety Fund	1,930,600	2,183,800	2,183,800
State Treasurer Empowerment Scholarship Account Fund	79,400	304,400	304,400
State Treasurer's Management Fund	195,600	295,600	295,600
State Treasurer's Operating Fund	2,556,600	2,595,600	2,645,800
SUBTOTAL - Other Appropriated Funds	4,762,200	5,379,400	5,429,600
SUBTOTAL - Appropriated Funds	5,967,300	6,584,500	6,634,700
Other Non-Appropriated Funds	4,005,400	4,088,300	4,088,300
TOTAL - ALL SOURCES	9,972,700	10,672,800	10,723,000

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 \$3,245,800 and 31.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
State Treasurer Empowerment Scholarship Account (ESA) Fund	\$304,400
State Treasurer's Management Fund	295,600
State Treasurer's Operating Fund	2,645,800

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$50,200 from the State Treasurer's Operating Fund in FY 2019 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 2019 is estimated to be as much as \$3,795,900 (an estimated \$75,918,600 ESA cost for the year X 5%). A.R.S. § 15-

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

2402C requires ADE to transfer one-fifth of the 5%, estimated to be \$759,200 in FY 2019, 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 2019 for Justice of the Peace (JP) salaries. This amount is unchanged from FY 2018.

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.

Accounting for the 3% total salary increase, the estimated state share of Justice of the Peace salaries is \$1,204,000 in FY 2019. The \$1,205,100 FY 2019 JP salary appropriation would 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 2019 for the administration of the Law Enforcement/Boating Safety Fund grants. This amount is unchanged from FY 2018.

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 2017 and year-to-date FY 2018 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 2017</u>	<u>FY 2018 Thru May 17th</u>
Apache	\$ 56,100	\$ 50,500
Coconino	180,700	169,900
Gila	184,900	130,700
La Paz	346,300	260,300
Maricopa	362,800	315,000
Mohave	547,400	406,100
Navajo	64,000	46,700
Yuma	<u>188,400</u>	<u>156,500</u>
Total	\$1,930,600	\$1,535,700

Other Issues

Additional Legislation

Border Security Trust Fund Repeal

Laws 2018, Chapter 188 repeals the Border Security Trust Fund. Established by Laws 2010, Chapter 211, the fund earned revenues from public and private donations and was to be used for the construction of a physical or virtual fence along the Arizona-Mexico border. In November 2015, the Joint Border Security Advisory Committee authorized the distribution of \$219,200 from the fund to the Cochise County Sheriff's Office for thermal imaging, GPS, and other equipment to track illegal drug and other illegal activity on the Arizona-Mexico border. In December 2017, the Committee directed all remaining monies in the fund to be distributed to the Cochise County Sheriff's Office for various support equipment. These monies total \$55,600, including the \$432 appropriated by the FY 2019 General Appropriation Act for disbursement to the Cochise County Sheriff.

Peace Officer Training Equipment Fund

Laws 2018, Chapter 312 appropriated a one-time appropriation of \$3,073,000 from the Peace Officer Training Equipment Fund in FY 2019. This amount includes the following non-lapsing appropriations:

1. The first \$500,000 in revenue is appropriated to DPS for employee overtime pay;
2. The next \$2,300,000 in revenue is appropriated to DPS for 10 virtual firing ranges, 3 virtual training

- simulators (one for the Tucson Police Department, one for the Pinal County Sheriff's Office, and one for the Yuma County Sheriff's Office);
3. The next \$203,000 in revenue is appropriated to DPS to maintain and service the 7 existing virtual training simulators;
 4. The next \$50,000 in revenue is appropriated to the Governor's Office of Highway Safety to provide public service announcements that educate drivers on how to act when stopped by a peace officer.
 5. The next \$20,000 in revenue is appropriated to the Supreme Court to cover the programming costs of implementing the new fees.

(Please see the Department of Public Safety section and Supreme Court section for more information.)

These appropriations will be made in the above order as revenue is received in the fund.

The legislation increases the assessment on criminal and civil traffic violations by \$4 and the defensive driving school fee by \$4. This new revenue is to be deposited into the new Peace Officer Training Equipment Fund.

The fees take effect January 1, 2019 and it is estimated they will bring annual revenue of \$2,747,000. It is expected that some of these appropriations may not be funded until FY 2020 or FY 2021. Once these appropriations are completed, the new Peace Officer Training Equipment Advisory Commission will make annual recommendations on how the funding should be spent.

The Peace Officer Training Equipment Fund is appropriated and may only be used for peace officer equipment.

Special Sporting Event Promotion

Laws 2016, Chapter 366 provides an annual General Fund appropriation of \$1.5 million 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 \$100.0 million 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 \$1.5 million in General Fund monies annually for distribution to the Office of Tourism from

FY 2022 through FY 2051, for a total General Fund cost of \$45.0 million.

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 was renamed ISM Raceway in January 2018.

Located in Avondale, ISM Raceway hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to ISM Raceway began in February 2017 and are expected to be completed by November 2018. As of May 2018, ISM Raceway has not requested certification of its expenditures.

Governor's Office on Tribal Relations

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	25,800	28,500	28,500
Employee Related Expenditures	11,400	10,600	10,500
Travel - In State	200	1,500	1,500
Other Operating Expenditures	18,200	17,400	20,400
Equipment	1,100	0	0
AGENCY TOTAL	56,700	58,000	60,900^{1/}
FUND SOURCES			
General Fund	56,700	58,000	60,900
SUBTOTAL - Appropriated Funds	56,700	58,000	60,900
Other Non-Appropriated Funds	34,000	22,900	22,900
TOTAL - ALL SOURCES	90,700	80,900	83,800

AGENCY DESCRIPTION — The agency assists and supports tribal nations and communities and enhances government-to-government relations between the 22 tribal nations in this state.

Operating Budget

The budget includes \$60,900 and 3 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$2,900 from the General Fund in FY 2019 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 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,434,800	1,449,300	1,449,300
Employee Related Expenditures	556,500	542,900	531,700
Professional and Outside Services	21,800	33,500	33,500
Other Operating Expenditures	306,700	348,600	348,600
Equipment	32,700	300	300
OPERATING SUBTOTAL	2,352,500	2,374,600	2,363,400
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	0	0
Student Financial Assistance	10,041,200	0	0
Western Interstate Commission Office	149,000	153,000	153,000
WICHE Student Subsidies	4,082,000	4,078,000	4,078,000
AGENCY TOTAL	21,928,400	6,909,300	6,898,100
FUND SOURCES			
General Fund	21,928,400	6,909,300	6,898,100 ^{1/2/3/}
SUBTOTAL - Appropriated Funds	21,928,400	6,909,300	6,898,100
Other Non-Appropriated Funds	7,332,900	8,167,400	6,527,900
Federal Funds	857,200	360,200	0
TOTAL - ALL SOURCES	30,118,500	15,436,900	13,426,000

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 \$2,363,400 and 25.9 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(11,200) from the General Fund in FY 2019 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 2019 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2018.

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

- 1/ Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit a current year expenditure plan to the Joint Legislative Budget Committee for review. The expenditure plan shall include the use of all projected tuition and fee revenues by expenditure category, including operating expenses, plant fund, debt service and financial aid. The plan shall include the amount by which each expenditure category is projected to increase over the prior year and 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. (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.

period of loan support. In FY 2017, ATIP distributed \$50,000 in loans among 10 students, as well as \$40,000 to the UA College of Education for deaf and blind instructional resources.

Arizona Transfer Articulation Support System

The budget includes \$213,700 from the General Fund in FY 2019 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2018.

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 also contribute \$277,200 to the system each year.

Western Interstate Commission Office

The budget includes \$153,000 from the General Fund in FY 2019 for the Western Interstate Commission Office. This amount is unchanged from FY 2018.

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 \$4,078,000 from the General Fund in FY 2019 for WICHE student subsidies. This amount is unchanged from FY 2018.

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.

ABOR is providing subsidies to 164 Arizona students in FY 2019, which is (1) fewer than FY 2018. 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
- Arizona Teacher Academy
- Resident Student & Cost Containment Reports
- Land Trust Funds
- Arizona Financial Aid Trust
- Tuition Revenues
- 2003 Research Infrastructure Refinancing
- 2017 University Capital Infrastructure Funding
- One-Time Funding
- Intellectual Property & Technology Transfer Royalties
- University System Summary Tables

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, universitywide General Fund costs are projected to decrease by \$(15,311,700) in FY 2020 below FY 2019, and \$(465,500) in FY 2021 below FY 2020.

These estimates are based on:

- A \$(8,000,000) decrease in FY 2020 for the removal of one-time funding for capital or operating expenditures.
- A \$(3,000,000) decrease in FY 2020 for the expiration of the annual appropriation to NAU to support a nonprofit biomedical organization.
- A \$(2,081,800) decrease in FY 2020 for the removal of one-time funding for statewide adjustments.
- A \$(2,500,000) decrease in FY 2020 for the removal of one-time funding for operating expenditures of the School of Civic and Economic Thought and Leadership (ASU), Center for the Philosophy of Freedom (UA), and the Economic Policy Institute (NAU).
- A \$(250,000) decrease in FY 2020 for the removal of one-time funding to ASU for Economic Development.
- A \$(19,900) decrease in FY 2020 and a \$(1,016,300) decrease in FY 2021 to adjust for lower university debt service costs. *(Please see the 2003 Research Infrastructure Refinancing narrative for more information.)*

- Increases of \$540,000 and \$550,800 in FY 2020 and FY 2021, respectively, to increase the universities' annual Capital Infrastructure Funding appropriation by 2% each year. (The GDP inflator is currently projected at 2.34% for FY 2020 and 2.44% for FY 2021; statute funds the lesser of 2% or the actual rate). *(Please see the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

Additional Legislation

Contract Lobbyist Ban

The FY 2019 General Appropriation Act eliminates footnotes prohibiting the universities from expending their General Fund appropriations for contracted lobbyists. (Laws 2017, Chapter 315 replaced this footnote language with permanent law in A.R.S. § 15-1650.04.)

Foster Care Student Tuition Waivers

The FY 2019 Higher Education Budget Reconciliation Bill (BRB) establishes A.R.S. § 15-1809.01 to make permanent the foster care student tuition waiver program. The existing 5-year pilot program, which provides full tuition and mandatory fee scholarships for students who have been in foster care, would otherwise have expired at the end of FY 2018.

Proposition 301 Renewal

Laws 2018, Chapter 74 establishes a 0.6% Transaction Privilege Tax (TPT) that will take effect upon the expiration of the current Proposition 301 0.6% tax in FY 2022 and continue through FY 2041. Under the existing distribution formula, the universities receive 12% of Proposition 301 TPT revenues that remain after the annual debt service payment of approximately \$64,100,000 for School Facilities Board (SFB) Bonds. The new distribution formula redirects this SFB funding to the Classroom Site Fund (since the SFB debt service payments will have concluded), leaving the universities' revenue distribution unchanged. *(Please see the Proposition 301 Renewal narrative in the ADE section for more information.)*

Tuition & Fee Approval

Laws 2018, Chapter 107 amends A.R.S. § 15-1626 to require ABOR to approve via a roll call vote any changes to academic fees or online program tuition rates. Previously, ABOR policy required review only of base and differential tuition, mandatory fees, program fees, and class fees greater than \$100. ABOR reports that among classes offered in fall 2017 across the 3 universities, there were 134 separate class fees over \$100 and 3,588 separate class fees under \$100.

University Accounts

The FY 2019 General Appropriation Act modifies the footnotes for the School of Civic and Economic Thought and Leadership at ASU and the Center for the Philosophy of Freedom at UA to require that all appropriations and donations to those entities, including remaining balances from prior years, be deposited into separate accounts from other university funds. A similar requirement is also included for the Economic Policy Institute at NAU.

Arizona Teacher Academy

The FY 2018 Higher Education BRB (Laws 2017, Chapter 310) established A.R.S. § 15-1655, which instructed ABOR and the universities to develop an Arizona Teacher Academy. The academy is intended to encourage more Arizona residents to enter the teaching profession and commit to teach in Arizona public schools.

The academy grants 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.

ABOR reports that approximately 230 students are participating in the Teacher Academy during the 2017 - 2018 academic year and anticipates 730 students by the fifth year.

The FY 2019 Higher Education BRB made the statutory authorization for the Teachers Academy ongoing.

Resident Student & Cost Containment Reports

The FY 2018 Higher Education BRB (Laws 2017, Chapter 310) established A.R.S. § 15-1650.03, which requires that ABOR conduct the following: 1) a comprehensive study of the cost of educating a full-time resident undergraduate student by December 15, 2017, and every 5 years thereafter, and 2) report each year on the universities' actions to contain increases in the cost of attendance for resident undergraduate students.

Resident Student Cost Study

As part of the resident student cost study, ABOR is required to include the following: 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.

ABOR's 2017 cost study reported an average annual academic cost per student, including both operating and capital costs, of \$16,813, including:

- \$8,047 in instruction related costs.
- \$2,451 in academic support (Dean's offices, libraries, academic advising, etc.).
- \$1,339 in student services (registrar, financial aid, health services, student recreation, counseling, etc.).
- \$1,276 in institutional support (office of the president, HR, finance, IT, etc.).
- \$1,474 in cash payments to students for living expenses beyond tuition (e.g. housing, meal plans, books, etc.) as part of scholarship and fellowship awards.
- \$1,020 for capital costs
- \$857 for operations and maintenance of academic buildings.
- \$349 in academic public service (activities for individuals outside the university including conferences, advisory services, UA's Biosphere, etc.).

The total cost per student includes the average costs for undergraduate and graduate students, excluding those in certain programs such as the UA Colleges of Medicine, due to the uniquely higher costs of those programs. The total also excludes costs associated with research and auxiliary functions (e.g. athletics, dining halls, etc.).

Cost Containment Report

The FY 2019 Higher Education BRB modifies the requirements of the annual cost containment report, requiring ABOR to include the following for each university by September 1 of each year: 1) historical growth in tuition and fee rates, 2) historical growth in the number and total salaries of faculty, staff, and administration employees 3) actions taken to reduce costs and the resulting savings, 4) allocations of faculty time between instruction and research, 5) historical increases in the number of credit hours required for degree programs, and 6) the development of new, nontraditional, and less expensive education programs.

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. ABOR amended Board Policy 3-606 in 2017 to direct all Universities Land Fund incremental revenues from Proposition 123 (distributions beyond the first 2.5% distribution rate) to the universities for general use, rather than the Eminent Scholars Grant.

The funds will have estimated revenues of \$12,268,200 in FY 2019. (Please see the Land Department narrative for more information.)

Table 1

State Land Trust Revenues: Universities ^{1/}

	FY 2015	FY 2019
Military Institute	\$ 83,800	\$ 138,200
Normal Schools	296,600	757,800
A&M Colleges	445,100	985,600
School of Mines ^{2/}	499,800	1,200,000
Universities Land Fund	3,834,800	9,186,600
University Land Code	2,175,400	2,740,000
U of A Land - 1881	<u>1,659,400</u>	<u>6,446,600</u>
Total	\$ 5,160,100	\$ 12,268,200

^{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.

Arizona Financial Aid Trust

Pursuant to A.R.S. § 15-1642, General Fund monies match financial aid tuition surcharges collected from university students for the Arizona Financial Aid Trust (AFAT). The AFAT fee is 1% of the full-time resident undergraduate base tuition rate, or \$79-\$108 in FY 2018 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.

The FY 2019 Higher Education BRB continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2019. The budget also maintains each university's allocation of General Fund AFAT appropriations at their FY 2018 level. *(Please see the Student Financial Assistance narrative in the FY 2018 Appropriations Report for more information.)*

Based on student fees contributed to AFAT in FY 2017, the state's match would be \$33,779,600, or an increase of \$23,738,400 over the \$10,041,200 appropriation in FY 2019.

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 2017, AFAT disbursed \$20,248,600. *(Please see Table 6 for additional information on financial aid.)*

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. § 35-146 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.

The August 2017 tuition revenue report projects FY 2018 gross tuition and fees to be \$2.9 billion systemwide. Of this amount, \$1.3 billion is appropriated while \$1.6 billion is non-appropriated.

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 project \$693.3 million in tuition waivers and awards in FY 2018, for a total net tuition of \$2.2 billion. The universities project \$2.3 billion of net tuition and fees in FY 2019.

A FY 2019 General Appropriation Act footnote modifies the reporting requirements that govern ABOR's annual tuition revenue report. Rather than reporting on the incremental use of only appropriated tuition, beginning in FY 2019, ABOR must account for the expenditure of *all* tuition monies using the following categories: operating expenses, plant fund, debt service, and financial aid. ABOR is required to report on the total amount of tuition monies spent on each category as well as any change in each category versus the prior year.

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.

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. *(Please see Table 2 for more information.)*

Table 2

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.

The budget includes a decrease of \$(900) from the General Fund in FY 2019 to adjust appropriations for research infrastructure lease-purchase payments to the universities' actual debt service obligations.

The \$(900) decrease in the FY 2019 budget reflects the lower costs in FY 2019 compared to FY 2018. Of this amount, the General Fund appropriations are adjusted \$(2,300) for ASU, \$(300) for NAU, and \$1,700 for UA.

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2019 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects.

2017 University Capital Infrastructure Funding

Laws 2017, Chapter 328 established 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 the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

One-Time Funding

Section 131 of the FY 2019 General Appropriation Act appropriates \$8.0 million to the universities from the General Fund in FY 2019 for one-time operating expenditures or capital improvements. Of this amount, \$4.2 million is appropriated to ASU, \$1.6 million to NAU, and \$2.2 million to UA.

Section 132 of the FY 2019 General Appropriation Act also appropriates \$2.5 million to the universities for one-time operating expenditures of the School of Civic and Economic Thought and Leadership (ASU), the Economic Policy Institute (NAU), and the Center for the Philosophy of Freedom (UA). Of the total, \$1.0 million is appropriated to each of ASU and UA, and \$500,000 is appropriated to NAU.

Intellectual Property & Technology Transfer Royalties

In conjunction with annual General Fund appropriations that fund university research facilities *(please see 2003 Research Infrastructure Refinancing section above for more information)*, A.R.S. § 15-1670 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.

Laws 2017, Chapter 328 amended 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 April 30, 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 clarified 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 made permanent the technology transfer income sharing provisions, which would otherwise have expired in FY 2031. However, because the universities are not required to distribute more to the General Fund than they receive in capital appropriations under A.R.S. §§ 15-1670 and 15-1671 in any given year, the income sharing

will effectively cease in 2043, when the final appropriations under A.R.S. § 15-1671 are made. In terms of FY 2017 gross royalty revenues, ASU reported \$775,100 of licensing and royalty revenues, NAU reported \$45,000, and UA reported \$2.7 million.

All 3 universities reported \$0 net income on agreements entered into prior to May 1, 2017. ASU and NAU also reported \$0 net income on agreements entered into after May 1, 2017, while UA reported \$22,400. Of this amount, UA is required to deposit \$4,500 into the General Fund.

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 2019 is \$6.33 billion, including \$725.5 million from the General Fund and \$2.9 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2019 tuition rate changes. *Table 3* summarizes the FY 2019 expenditure authority amounts for the Arizona University System.

Based on preliminary FY 2019 estimates, gross tuition receipts are expected to be \$3.1 billion in FY 2019, which would increase total spending authority to \$6.5 billion in FY 2019.

Tuition Distribution

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets,

Table 3

	FY 2019 Summary of Spending Authority					
	Appropriated Funds			Non-Appropriated Funds		
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	Total ^{3/}
ABOR	\$ 6,898,100	\$ 0	\$ 0	\$ 0	\$ 6,527,900	\$ 13,426,000
ASU	328,775,800	684,347,600	3,600,000	412,303,800	1,572,986,000	3,002,013,200
NAU	112,095,700	157,620,700	0	94,302,400	339,089,200	703,108,000
UA-Main	208,836,400	412,085,600	0	226,449,200	1,118,581,200	1,965,952,400
UA-Health Sciences	<u>68,897,700</u>	<u>49,776,300</u>	<u>0</u>	<u>108,404,100</u>	<u>418,424,100</u>	<u>645,502,200</u>
Total	\$725,503,700	\$1,303,830,200	\$3,600,000	\$841,459,500	\$3,455,608,400	\$6,330,001,800

1/ Appropriated share of tuition and mandatory registration fees comprise \$1,292,207,400 of the total Collections Fund spending authority. The remaining authority is derived from miscellaneous revenues and includes statewide adjustments. This amount excludes FY 2019 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 \$1,640,288,200 based on FY 2018 amounts, as reflected in *Table 4*. This amount excludes FY 2019 enrollment growth and tuition rate changes.

3/ Total universitywide funding includes FY 2018 gross tuition revenues. Based on preliminary FY 2019 estimates, gross tuition receipts are expected to be \$3.1 billion in FY 2019, which would increase total spending authority to \$6.5 billion in FY 2019.

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 gross tuition collections for the Arizona University System equal an estimated \$2.9 billion in FY 2018. Net tuition equals an estimated \$2.2 billion in FY 2018 (please see Table 4).

Tuition Rates

ABOR approved FY 2019 tuition rates on April 5, 2018.

- Since FY 2009, NAU has maintained a guaranteed tuition model for incoming freshmen. As a result, NAU did not increase tuition for current students, but did institute an annual \$150 mandatory athletics fee on all students at the Flagstaff campus. NAU increased tuition and mandatory fees by 4.0% - 4.6% for new resident and nonresident undergraduate students, and 6.4% - 6.9% for new resident and nonresident graduate students at the Flagstaff campus.
- UA began a similar tuition guarantee program in FY 2015. UA increased tuition and fees 1.8% for incoming resident students and 1.9% for incoming nonresident students.
- ASU did not increase tuition for resident undergraduates, but did increase the annual mandatory health and wellness fee by \$30 for all

students, for a 0.3% increase in overall tuition and mandatory fees for resident undergraduates. ASU increased overall tuition and fees by 1.6% for resident graduate students and by 3.5% for all nonresident undergraduate and graduate students. ASU's total tuition and fees for all resident students includes \$270 for the partial continuation of a temporary surcharge first levied in FY 2016.

Table 5 only includes major tuition categories. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The Arizona University System distributed \$2.5 billion in financial aid in FY 2017. Of the \$2.5 billion total financial aid distributions in FY 2017, the federal government financed \$1.1 billion and university institutional sources provided \$865 million. The latter includes \$674 million of foregone tuition collections in the form of waivers and awards. (Please see Table 6 for details.)

Enrollment

Between fall 2016 and fall 2017, university enrollment increased from 164,838 FTE to 170,306, or 3.3%, as displayed in Table 7. Spring enrollment is traditionally lower than the fall. Spring 2018 enrollment is 166,875, or 3.5% higher than spring 2017.

Table 4

Use of FY 2018 Tuition/Fees by University ^{1/}

	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	<u>Total</u>
<u>Appropriated</u>				
Operating Budget ^{2/}	\$ 681,632,600	\$157,431,100	\$453,143,700	\$1,292,207,400
<u>Non-Appropriated</u>				
Operating Budget ^{3/}	\$ 549,235,800	\$ 81,430,500	\$202,272,100	\$ 832,938,400
Financial Aid ^{4/}	373,845,100	120,141,400	199,285,500	693,272,000
Plant Fund	20,000,000	1,000,000	4,000,000	25,000,000
Debt Service	<u>46,425,400</u>	<u>14,500,000</u>	<u>28,152,400</u>	<u>89,077,800</u>
Subtotal	\$ 989,506,300	\$217,071,900	\$ 433,710,000	\$1,640,288,200
Total Gross Tuition ^{5/}	\$1,671,138,900	\$374,503,000	\$886,853,700	\$2,932,495,600
Net Tuition ^{5/}	\$1,297,293,800	\$254,361,600	\$687,568,200	\$2,239,223,600

^{1/} As reported in FY 2018 Tuition Revenue Report submitted by ABOR in August 2017.

^{2/} Excludes miscellaneous revenues such as federal agriculture payments and land grant monies, which are included in the universities' collections accounts but do not constitute tuition revenues. These other revenues total an estimated \$6.7 million in FY 2018. Appropriated tuition includes \$10.2 million adjustment made by ABOR to the amounts originally included as part of the FY 2018 state budget to reflect estimated revenue increases resulting from the tuition setting process in spring 2017.

^{3/} Includes non-appropriated tuition revenues to be expended on instruction, organized research, public service, student services, auxiliary enterprises, and institutional support.

^{4/} Financial aid represents scholarship allowances provided by the universities (excluding federal loans, private grants, etc.) to offset the cost of tuition. Amounts include scholarship awards and tuition waivers except employee tuition reductions, which are recorded as employee benefit expenses.

^{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 constitutes net tuition.

Table 5

**Arizona University System
FY 2019 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	\$10,822 ^{2/}	0.3%	\$12,114	1.6%	\$28,336 ^{3/}	3.5%	\$30,906	3.5%
NAU	\$11,564	4.6%	\$10,970	6.9%	\$25,828	4.0%	\$24,056	6.4%
UA	\$12,447	1.8%	\$12,980	1.8%	\$36,346	1.9%	\$33,329	1.9%

^{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 2019.

^{3/} ABOR approved a rate of \$30,552 for international undergraduate students at ASU.

Table 6

**FY 2017 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	\$270,468.3	\$704.7	\$673,619.8	\$228,456.5	\$1,173,249.3
Loans	813,169.7	156.6	0.0	353,104.3	1,166,430.6
Employment	<u>9,321.7</u>	<u>0.0</u>	<u>191,518.8</u>	<u>0.0</u>	<u>200,840.5</u>
Total	\$1,092,959.7	\$861.3	\$865,138.6	\$581,560.8	\$2,540,520.4

^{1/} Information from ABOR FY 2017 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.

^{4/} Private/Other sources of aid include AFAT, which is a combination of both state and institutional sources of aid.

Table 7

Arizona University System 45th Day Enrollment ^{1/}

	<u>Fall 2016</u>	<u>Spring 2017</u>	<u>Fall 2017</u>	<u>Spring 2018</u>	<u>Fall 2016 To Fall 2017</u>	<u>Spring 2017 To Spring 2018</u>	<u>Fall 2017 Residents</u>
	ASU-Tempe	61,250	59,844	63,342	61,830	3.4%	3.3%
ASU-DPC	17,083	17,114	18,080	18,039	5.8%	5.4%	10,350
ASU-East	7,052	6,782	7,384	7,126	4.7%	5.1%	3,945
ASU-West	<u>8,521</u>	<u>8,498</u>	<u>9,044</u>	<u>9,033</u>	<u>6.1%</u>	<u>6.3%</u>	<u>4,724</u>
ASU Subtotal	93,906	92,238	97,850	96,028	4.2%	4.1%	52,842
NAU	28,568	27,479	29,289	28,092	2.5%	2.2%	19,687
UA-Main	38,690	37,828	39,425	38,354	1.9%	1.4%	23,956
UA-Health Sciences	<u>3,674</u>	<u>3,654</u>	<u>3,742</u>	<u>4,401</u>	<u>1.9%</u>	<u>20.4%</u>	<u>2,862</u>
UA Subtotal	42,364	41,482	43,167	42,755	1.9%	3.1%	26,818
Total	164,838	161,199	170,306	166,875	3.3%	3.5%	99,347

^{1/} Adjusted FTE counts as reported by ABOR 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).

Arizona State University

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7,811.8	8,123.1	8,123.1 ^{1/}
Personal Services	465,130,600	478,891,000	478,891,000
Employee Related Expenditures	141,946,100	144,986,500	145,836,400
Professional and Outside Services	51,507,400	49,374,000	49,374,000
Travel - In State	195,200	325,500	325,500
Travel - Out of State	3,303,300	2,607,400	2,607,400
Other Operating Expenditures	118,123,700	126,122,400	126,122,400
Equipment	23,265,600	20,394,900	20,394,900
OPERATING SUBTOTAL	803,471,900	822,701,700	823,551,600
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	11,190,300	13,481,000	13,478,700 ^{2/}
2017 Capital Infrastructure Funding	0	0	11,927,400 ^{3/}
Arizona Financial Aid Trust	0	5,985,800	5,985,800 ^{4/}
Biomedical Informatics	3,067,700	3,746,100	3,763,900
Downtown Phoenix Campus	144,968,500	145,337,500	145,913,900
Economic Development	0	0	250,000 ^{5/}
One-Time Funding	7,000,000	6,639,500 ^{6/}	4,245,000 ^{2/}
School of Civic and Economic Thought and Leadership	3,000,000	4,000,000 ^{6/}	4,007,100 ^{8/9/}
TRIF - Lease Purchase Payment	3,600,000	3,600,000	3,600,000
AGENCY TOTAL	976,298,400	1,005,491,600	1,016,723,400 ^{10/11/12/}
FUND SOURCES			
General Fund	305,397,600	320,259,000	328,775,800 ^{13/14/15/}
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	3,600,000	3,600,000	3,600,000
University Collections Fund	667,300,800	681,632,600	684,347,600 ^{16/}
SUBTOTAL - Other Appropriated Funds	670,900,800	685,232,600	687,947,600
SUBTOTAL - Appropriated Funds	976,298,400	1,005,491,600	1,016,723,400
Other Non-Appropriated Funds	1,283,177,500	1,550,369,400	1,572,986,000
Federal Funds	412,336,600	412,303,800	412,303,800
TOTAL - ALL SOURCES	2,671,812,500	2,968,164,800	3,002,013,200

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 had 97,850 full-time equivalent students at its campuses in fall 2017.

^{1/} Includes 130.8 GF and 1,040.1 OF FTE Positions funded from Special Line Items in FY 2019.

^{2/} A.R.S. § 15-1670 appropriates \$13,478,700 to ASU from the General Fund in FY 2019 to finance lease-purchase payments for research infrastructure projects.

^{3/} A.R.S. § 15-1671 appropriates \$11,927,400 to ASU from the General Fund in FY 2019 for capital infrastructure projects.

^{4/} 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.

^{5/} The appropriated amount for the Economic Development line item shall be used to establish, in cooperation with a public university located in Guanajuato, Mexico, an office in Guanajuato, Mexico, to develop collaborative efforts between the states of Arizona and Guanajuato, including stimulating bilateral trade and economic development, enhancing cultural exchange opportunities, expanding public service capacity, enhancing innovation and improving public policy development. (General Appropriation Act footnote)

^{6/} The \$1,000,000 of FY 2018 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.

Laws 2017, Chapter 199 amended A.R.S. § 15-1601 and A.R.S. § 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 takes effect with the FY 2019 General Appropriation Act.

Budget data for all campuses have been consolidated in the FY 2017 - FY 2019 display above for comparability.

Operating Budget

The budget includes \$823,551,600 and 6,952.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$273,199,400
University Collections Fund	550,352,200

FY 2019 adjustments are as follows:

- 7/ The sum of \$8,000,000 is appropriated from the state General Fund in FY 2019 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 \$4,245,000, 2) Northern Arizona University \$1,590,200, 3) University of Arizona \$2,164,800. On or before August 1, 2018, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in subsection A of this section 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)
- 8/ Footnote for ongoing funding: 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, including any remaining balances from prior fiscal years, shall be deposited in a separate account, 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 1, 2018. 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)
- 9/ Footnote for one-time funding: In addition to any other appropriations, the sum of \$1,000,000 is appropriated from the state General Fund in FY 2019 to Arizona State University to be used for operating expenses of the School of Civic and Economic Thought and Leadership. This amount supplements and does not supplant any existing state funding or private or external donations to the school. The appropriated amounts and all private and external donations to the school, including any remaining balances from prior fiscal years, shall be deposited in a separate account, must be used only for the direct operation of the school and may not be used for indirect costs of the university. \$100,000 of the amount appropriated to Arizona State University pursuant to subsection A of this section shall be used by the School of Civic and Economic Thought and Leadership to support research on the Arizona Constitution and the development of a civics and constitutionalism curriculum for K-12 and postsecondary education institutions. (General Appropriation Act footnote)
- 10/ 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)
- 11/ 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)
- 12/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 13/ The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- 14/ The FY 2019 General Fund budget as adjusted for statewide adjustments is \$328,775,800. This amount includes \$296,880,600 in ASU's individual section of the FY 2019 General Appropriation Act, \$1,244,100 for statewide adjustments, \$13,478,700 in A.R.S. § 15-1670 lease-purchase appropriations, \$11,927,400 in A.R.S. § 15-1671 capital infrastructure appropriations, a one-time \$4,245,000 appropriation in section 131 of the FY 2019 General Appropriation Act for capital improvements or other operating expenditures, and a one-time \$1,000,000 appropriation in section 132 of the FY 2019 General Appropriation Act for the School of Civic and Economic Thought and Leadership.
- 15/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 16/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2018 and all collections received by the university during the fiscal year 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)

Statewide Adjustments

The budget includes an increase of \$849,900 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(1,337,900)
University Collections Fund	2,187,800

(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 \$13,478,700 from the General Fund in FY 2019 for the 2003 Research Infrastructure Lease-

Purchase Payment line item. FY 2019 adjustments are as follows:

Refinance Adjustment

The budget includes a decrease of \$(2,300) from the General Fund in FY 2019 to adjust from prior year savings associated with the refinancing of Certificates of Participation (COPs).

As amended by the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130), A.R.S. § 15-1670 appropriates an annual amount 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.

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2019 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, ASU has issued \$206,200,000 in COPs.

(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)

2017 Capital Infrastructure Funding

The budget includes \$11,927,400 from the General Fund in FY 2019 for the 2017 Capital Infrastructure Funding line item. FY 2019 adjustments are as follows:

2017 Capital Infrastructure Funding

The budget includes an increase of \$11,927,400 from the General Fund in FY 2019 for capital infrastructure funding.

Laws 2017, Chapter 328 established 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. Since this funding appears in A.R.S. § 15-1671, this funding does not appear in the FY 2019 General Appropriation Act.

(Please see the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)

Arizona Financial Aid Trust

The budget includes \$5,985,800 from the General Fund in FY 2019 for the Arizona Financial Aid Trust (AFAT). This amount is unchanged from FY 2018. *(Please see the Other Issues: Arizona Financial Aid Trust narrative in the ABOR section for more information.)*

Biomedical Informatics

The budget includes \$3,763,900 and 24.9 FTE Positions in FY 2019 for the Biomedical Informatics Department. These amounts consist of:

General Fund	1,878,200
University Collections Fund	1,885,700

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$17,800 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	9,200
University Collections Fund	8,600

This multidisciplinary department incorporates computer science, biology, and engineering to organize and analyze medical data. In 2014, Biomedical Informatics moved from the Downtown Phoenix Campus (DPC) to Mayo Clinic's hospital in Phoenix.

Downtown Phoenix Campus

The budget includes \$145,913,900 and 1,135 FTE Positions in FY 2019 for programs headquartered at the Downtown Phoenix Campus. These amounts consist of:

General Fund	13,804,200
University Collections Fund	132,109,700

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$576,400 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	57,800
University Collections Fund	518,600

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 18,081 in FY 2018.

Economic Development

The budget includes \$250,000 from the General Fund in FY 2019 for the Economic Development line item. FY 2019 adjustments are as follows:

Economic Development

The budget includes an increase of \$250,000 from the General Fund in FY 2019 for one-time funding for economic development.

The FY 2019 General Appropriation Act specifies that these monies shall be used to establish, in cooperation with a public university located in Guanajuato, Mexico, an office in Guanajuato, Mexico, to develop collaborative efforts between the states of Arizona and Guanajuato, including stimulating bilateral trade and economic development, enhancing cultural exchange opportunities, expanding public service capacity, enhancing innovation and improving public policy development.

One-Time Funding

The budget includes \$4,245,000 in FY 2019 from the General Fund for the One-Time Funding line item. FY 2019 adjustments are as follows:

Adjusted One-Time Funding

The budget includes a decrease of \$(2,394,500) from the General Fund in FY 2019 for the adjustment of one-time funding for capital improvements or operating expenditures.

The FY 2018 budget included \$6,639,500 of one-time funding for capital improvements or operating expenditures. ASU used its FY 2018 one-time funding for faculty salaries and benefits.

School of Civic and Economic Thought and Leadership

The budget includes \$4,007,100 and 11 FTE Positions from the General Fund in FY 2019 for the School of Civic and Economic Thought and Leadership (SCETL) line item. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$7,100 from the General Fund in FY 2019 for statewide adjustments.

The FY 2019 General Appropriation Act requires that \$100,000 of SCETL's appropriation be used to support research on the Arizona Constitution and development of a civics and constitutionalism curriculum for K-12 and postsecondary education institutions.

The FY 2019 General Appropriation Act also specifies that the state appropriations and all private and external donations to the school must be deposited into a separate account.

Both the FY 2018 and FY 2019 funding for this line item include \$1,000,000 that is designated as one-time.

SCETL began matriculating students in fall 2017. The school currently offers a bachelor of arts program 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. The school is also developing a master of arts in education program for teachers in classical academies, and it hosts community lecture series and events related to public affairs.

TRIF Lease-Purchase Payment

The budget includes \$3,600,000 from the Technology and Research Initiative Fund (TRIF) in FY 2019 for lease-purchase payment requirements. This amount is unchanged from FY 2018.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$2,500,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$49,100,000 in infrastructure development at the ASU - East and ASU - West campuses. Beginning in FY 2003, the lease-purchase payment increased to \$3,600,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

This section includes information on the following topics:

- Summary
- Long-Term Budget Impacts
- University Collections and FTE Positions Adjustments

Summary

ASU's FY 2019 General Fund budget is \$328,775,800. Of this amount:

- \$296,880,600 is included in ASU's individual section of the FY 2019 General Appropriation Act.
- \$1,244,100 is part of statewide adjustments.
- \$13,478,700 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$11,927,400 is appropriated in A.R.S. § 15-1671 for new university research facilities, building renewal, or other capital construction projects.
- \$4,245,000 is a one-time appropriation in section 131 of the FY 2019 General Appropriation Act for capital improvements or operating expenditures.
- \$1,000,000 is a one-time appropriation in section 132 of the FY 2019 General Appropriation Act 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, ASU's General Fund costs are projected to decrease by \$(6,318,100) in FY 2020 below FY 2019, and increase \$245,700 in FY 2021 above FY 2010.

These estimates are based on:

- A \$(4,245,000) decrease in FY 2020 for the removal of one-time funding for capital or operating expenditures.
- A \$(1,039,300) decrease in FY 2020 for the removal of one-time funding for statewide adjustments.
- A \$(1,000,000) decrease in FY 2020 for the removal of one-time funding for operating expenditures of the School of Civic and Economic Thought and Leadership
- A \$(250,000) decrease in FY 2020 for the removal of one-time funding for the Economic Development line item.
- A \$(22,400) decrease in FY 2020 and a \$2,400 increase in FY 2021 to adjust for university debt service costs. *(Please see the 2003 Research Infrastructure Refinancing narrative for more information.)*
- Increases of \$238,600 and \$243,300 in FY 2020 and FY 2021, respectively, to increase the university's annual Capital Infrastructure Funding appropriation by 2% each year. (The GDP inflator is currently projected at 2.34% for FY 2020 and 2.44% for FY 2021; statute funds the lesser of 2% or the actual rate.) *(Please see the 2017 University Capital Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

University Collections and FTE Positions Adjustments

Including statewide adjustments, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) appropriated \$685,087,900 from the University Collections Fund to ASU (all campuses combined). The Collections Fund for ASU 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 as 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 2018 to the Joint Legislative Budget Committee in August 2017, and ASU incorporated the adjusted FY 2018 amounts as part of their FY 2019 budget submission. Accordingly, the estimated FY 2018 amount has been adjusted by \$(3,455,300) to \$681,632,600.

The FY 2019 University Collections Fund amount is increased by \$2,715,000 for statewide adjustments to \$684,347,600.

The FY 2018 FTE Position count has also been adjusted. Laws 2017, Chapter 305 originally appropriated 7,811.8 FTE Positions in FY 2018 for ASU (all campuses combined). The General Fund accounted for 2,345.4 FTE Positions and the University Collections Fund accounted for the remaining 5,466.4 FTE Positions. The estimated number of FY 2018 FTE Positions has been adjusted by 311.3 to 8,123.1. The General Fund accounts for 2,450.8 FTE Positions and the University Collections Fund accounts for the remaining 5,672.3 FTE Positions.

Northern Arizona University

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,260.7	2,316.5	2,316.5 ^{1/}
Personal Services	154,987,700	158,286,800	158,286,800
Employee Related Expenditures	48,978,100	49,260,700	49,521,900
Professional and Outside Services	12,975,500	8,204,300	8,204,300
Travel - In State	336,700	509,600	509,600
Travel - Out of State	498,900	0	0
Other Operating Expenditures	17,478,600	30,489,600	30,489,600
Equipment	507,800	507,800	507,800
OPERATING SUBTOTAL	235,763,300	247,258,800	247,520,000
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	4,246,800	5,896,500	5,896,200 ^{2/}
2017 Capital Infrastructure Funding	0	0	4,520,900 ^{3/}
Arizona Financial Aid Trust	0	1,326,000	1,326,000 ^{4/}
Biomedical Research	3,000,000	3,000,000	3,000,000 ^{5/}
Economic Policy Institute	0	0	500,000 ^{6/}
NAU - Yuma	3,075,800	3,069,200	3,071,400
One-Time Funding	4,000,000	3,202,800	1,590,200 ^{7/}
Teacher Training	2,424,400	2,290,600	2,291,700 ^{8/}
AGENCY TOTAL	252,510,300	266,043,900	269,716,400 ^{9/10/}
FUND SOURCES			
General Fund	105,227,000	108,612,800	112,095,700 ^{11/12/13/}
<u>Other Appropriated Funds</u>			
University Collections Fund	147,283,300	157,431,100	157,620,700 ^{14/}
SUBTOTAL - Other Appropriated Funds	147,283,300	157,431,100	157,620,700
SUBTOTAL - Appropriated Funds	252,510,300	266,043,900	269,716,400
Other Non-Appropriated Funds	285,665,300	331,481,400	339,089,200
Federal Funds	90,881,200	92,567,800	94,302,400
TOTAL - ALL SOURCES	629,056,800	690,093,100	703,108,000

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 had 29,289 full-time equivalent students at its campuses in fall 2017.

^{1/} Includes 36.9 GF FTE Positions funded from Special Line Items in FY 2019.

^{2/} A.R.S. § 15-1670 appropriates \$5,896,500 to NAU from the General Fund in FY 2019 to finance lease-purchase payments for research infrastructure projects.

^{3/} A.R.S. § 15-1671 appropriates \$4,520,900 to NAU from the General Fund in FY 2019 for capital infrastructure projects.

^{4/} 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.

^{5/} Laws 2014, Chapter 18 appropriated \$3,000,000 annually from the 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.

^{6/} The sum of \$500,000 is appropriated to Northern Arizona University in FY 2019 for the purposes of supporting the Economic Policy Institute in the College of Business. This funding shall support the Institute's mission of rural economic development, financial literacy, and entrepreneurialism. The appropriated monies and all private and external donations to the Institute shall be deposited in a separate account, must be used only for the direct operation of the Institute and may not be used for the indirect costs of the university. On or before October 1, 2018, the Institute 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 that includes at least the following information for the Institute: 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. (General Appropriation Act footnote)

Operating Budget

The budget includes \$247,520,000 and 2,279.6 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	89,899,300
University Collections Fund	157,620,700

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$261,200 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	71,600
University Collections Fund	189,600

(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 \$5,896,200 from the General Fund in FY 2019 for the 2003 Research Infrastructure Lease-Purchase Payment line item. FY 2019 adjustments are as follows:

- 7/ The sum of \$8,000,000 is appropriated from the state General Fund in FY 2019 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 \$4,245,000, 2) Northern Arizona University \$1,590,200, 3) University of Arizona \$2,164,800. On or before August 1, 2018, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in subsection A of this section 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)
- 8/ 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)
- 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. (General Appropriation Act footnote)
- 12/ The FY 2019 General Fund Budget as adjusted for statewide adjustments is \$112,095,700. This amount includes \$96,456,600 in NAU's section of the FY 2019 General Appropriation Act, \$131,800 for statewide adjustments, the \$5,896,200 in A.R.S. § 15-1670 lease-purchase appropriations, \$4,520,900 in A.R.S. § 15-1671 capital infrastructure appropriations, the \$3,000,000 Biomedical Research appropriation in the FY 2015 General Appropriation Act, a one-time \$1,590,200 appropriation in Section 131 of the FY 2019 General Appropriation Act for capital improvements or other operating expenditures, and a one-time \$500,000 appropriation in section 132 of the FY 2019 General Appropriation Act for the Economic Policy Institute.
- 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, 2018 and all collections received by the university during the fiscal year 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)

Refinance Adjustment

The budget includes a decrease of \$(300) from the General Fund in FY 2019 to adjust from prior year savings associated with the refinancing of Certificates of Participation (COPs).

As amended by the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130), A.R.S. § 15-1670 appropriates an annual amount 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.

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2019 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.)

2017 Capital Infrastructure Funding

The budget includes \$4,520,900 from the General Fund in FY 2019 for capital infrastructure funding. FY 2019 adjustments are as follows:

2017 Capital Infrastructure Funding

The budget includes an increase of \$4,520,900 from the General Fund in FY 2019 for capital infrastructure funding. Laws 2017, Chapter 328 established 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. Since this funding appears in A.R.S. § 15-1671, this funding does not appear in the FY 2019 General Appropriation Act.

(Please see the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)

Arizona Financial Aid Trust

The budget includes \$1,326,000 from the General Fund in FY 2019 for the Arizona Financial Aid Trust (AFAT). This amount is unchanged from 2018. *(Please see the Other Issues: Arizona Financial Aid Trust narrative in the ABOR section for more information.)*

Biomedical Research

The budget includes \$3,000,000 from the General Fund in FY 2019 for the Biomedical Research line item. This amount is unchanged from FY 2018.

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 FY 2019 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.)*

Economic Policy Institute

The budget includes \$500,000 from the General Fund in FY 2019 for the new Economic Policy Institute line item. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$500,000 from the General Fund in FY 2019 for one-time funding for the Economic Policy institute.

The funding for the Economic Policy Institute will be used to support the institute's mission of rural economic development, financial literacy, and entrepreneurialism.

The FY 2019 General Appropriation Act also specifies that the state appropriations and all private and external donations to the institute must be deposited into a separate account.

NAU - Yuma

The budget includes \$3,071,400 and 29.4 FTE Positions from the General Fund in FY 2019 for NAU-Yuma. FY 2019 adjustments are as follows.

Statewide Adjustments

The budget includes an increase of \$2,200 from the General Fund in FY 2019 for statewide adjustments.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

One-Time Funding

The budget includes \$1,590,200 in FY 2019 from the General Fund for the One-Time Funding line item. FY 2019 adjustments are as follows:

Adjusted One-Time Funding

The budget includes a decrease of \$(1,612,600) from the General Fund in FY 2019 for the adjustment of one-time funding for capital improvements or operating expenditures.

The FY 2018 budget included \$3,202,800 of one-time funding for capital improvements or operating expenditures. NAU used its FY 2018 appropriation to make infrastructure improvements to underground utilities, upgrade fume hood control valves in one of its lab buildings, and make improvements and repairs to fire/life safety systems.

Teacher Training

The budget includes \$2,291,700 and 7.5 FTE Positions from the General Fund in FY 2019 for Teacher Training. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$1,100 from the General Fund in FY 2019 for statewide adjustments.

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 2019 General Fund budget is \$112,095,700. Of this amount:

- \$96,456,600 is included in NAU's individual section of the FY 2019 General Appropriation Act.
- \$131,800 is part of statewide adjustments.
- \$5,896,200 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$4,520,900 is appropriated in A.R.S. § 15-1671 for new university research facilities, building renewal, or other capital construction projects.
- \$3,000,000 is appropriated in Section 132 of the FY 2015 General Appropriation Act for Biomedical Research.
- \$1,590,200 is a one-time appropriation in section 131 of the FY 2019 General Appropriation Act for capital improvements or operating expenditures.
- \$500,000 is for a one-time appropriation in section 132 of the FY 2019 General Appropriation Act for operating expenditures of the Economic Policy Institute.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, NAU's General Fund costs are projected to decrease by \$(5,025,000) in FY 2020 below FY 2019 and by \$(927,800) in FY 2021 below 2020.

These estimates are based on:

- A \$(1,590,200) decrease in FY 2020 for the removal of one-time funding for capital or operating expenditures.
- A \$(28,500) decrease in FY 2020 for the removal of one-time funding for statewide adjustments.
- A \$(500,000) decrease in FY 2020 for removal of one-time funding for the Economic Policy Institute.
- A \$3,300 increase in FY 2020 and a \$(1,020,000) decrease in 2021 to adjust for university debt service costs. *(Please see the 2003 Research Infrastructure Refinancing narrative for more information.)*
- Increases of \$90,400 and \$92,200 in FY 2020 and FY 2021, respectively, to increase the university's annual

Capital Infrastructure Funding appropriation by 2% each year. (The GDP inflator is currently projected at 2.34% for FY 2020 and 2.44% for FY 2021; statute funds the lesser of 2% or the actual rate). *(Please see the 2017 University Capital Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

- A \$(3,000,000) decrease in FY 2020 for the elimination of funding for the Biomedical Research line item, whose last appropriation is for FY 2019. *(Please see the Biomedical Research narrative for further information.)*

University Collections and FTE Positions Adjustments

Including statewide adjustments, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) appropriated \$147,362,100 from the University Collections Fund to NAU in FY 2018. 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 as 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 2018 to the Joint Legislative Budget Committee in August 2017, and NAU incorporated the adjusted FY 2018 amounts as part of their FY 2019 budget submission. Accordingly, the estimated FY 2018 amount has been adjusted upward by \$10,069,000 to \$157,431,100.

The FY 2019 University Collections Fund amount is increased by \$189,600 for statewide adjustments to \$157,620,700.

The FY 2018 FTE Position count has also been adjusted. Laws 2017, Chapter 305 originally appropriated 2,260.7 FTE Positions in FY 2018 for NAU. The General Fund accounted for 872.3 FTE Positions and the University

Collections Fund accounted for the remaining 1,388.4 FTE Positions. The estimated number of FY 2018 FTE Positions has been adjusted by 55.8 to 2,316.5. The General Fund accounts for 865.1 FTE Positions and the University Collections Fund accounts for the remaining 1,451.4 FTE Positions.

University of Arizona - Main Campus

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	6,009.5	6,064.5	6,064.5 ^{1/}
Personal Services	290,086,500	331,290,700	331,290,700
Employee Related Expenditures	108,585,900	123,312,300	124,520,800
Professional and Outside Services	7,492,800	3,518,600	3,518,600
Travel - In State	91,100	66,000	66,000
Travel - Out of State	799,300	52,300	52,300
Other Operating Expenditures	73,605,900	58,583,000	58,583,000
OPERATING SUBTOTAL	480,661,500	516,822,900	518,031,400
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	13,978,400	14,249,300	14,251,000 ^{2/}
2017 Capital Infrastructure Funding	0	0	10,551,700 ^{3/}
Agriculture	38,062,000	42,376,000	42,641,300
Arizona Cooperative Extension	15,287,400	16,358,100	16,472,300
Arizona Financial Aid Trust	0	2,729,400	2,729,400 ^{4/}
Arizona Geological Survey	0	941,000	948,500
Center for the Philosophy of Freedom	2,500,000	3,500,000 ^{5/}	3,526,500 ^{5/6/}
Mining, Mineral and Natural Resources Educational Museum	428,300	428,300	428,800
One-Time Funding	8,000,000	3,157,700 ^{8/}	2,164,800 ^{7/}
Sierra Vista Campus	8,769,600	9,132,900	9,176,300
AGENCY TOTAL	567,687,200	609,695,600	620,922,000 ^{9/10/}
FUND SOURCES			
General Fund	197,059,600	199,600,900	208,836,400 ^{11/12/13/}
<u>Other Appropriated Funds</u>			
University Collections Fund	370,627,600	410,094,700	412,085,600 ^{14/}
SUBTOTAL - Other Appropriated Funds	370,627,600	410,094,700	412,085,600
SUBTOTAL - Appropriated Funds	567,687,200	609,695,600	620,922,000
Other Non-Appropriated Funds	1,031,002,800	1,081,668,700	1,118,581,200
Federal Funds	212,419,400	218,791,400	226,449,200
TOTAL - ALL SOURCES	1,811,109,400	1,910,155,700	1,965,952,400

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 had 39,425 full-time equivalent students at its campuses (excluding the Health Sciences Center) in fall 2017. Upon its establishment, UA received the federal land grant for Arizona, allowing the creation of agricultural and mining programs that continue today.

Operating Budget		FY 2019
	General Fund	128,320,900
	University Collections Fund	389,710,500
<p>The budget includes \$518,031,400 and 4,847 FTE Positions in FY 2019 for the operating budget. These amounts consist of:</p>		
<p>FY 2019 adjustments are as follows:</p>		

^{1/} Includes 874.6 GF and 342.9 OF FTE Positions funded from Special Line Items in FY 2019.

^{2/} A.R.S. § 15-1670 appropriates \$14,251,000 to UA-Main from the General Fund to finance lease-purchase payments for research infrastructure projects.

^{3/} A.R.S. § 15-1671 appropriates \$10,551,700 to UA-Main from the General Fund in FY 2019 for capital infrastructure projects.

^{4/} 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.

Statewide Adjustments

The budget includes an increase of \$1,208,500 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(674,900)
University Collections Fund	1,883,400

(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 \$14,251,000 from the General Fund in FY 2019 for the 2003 Research Infrastructure Lease-Purchase Payment line item. FY 2019 adjustments are as follows:

Refinance Adjustment

The budget includes an increase of \$1,700 from the General Fund in FY 2019 to adjust from prior year savings associated with the refinancing of Certificates of Participation (COPs).

As amended by the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130), A.R.S. § 15-1670 appropriates an annual amount 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.

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, 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.)

- 5/ Footnote for ongoing funding: 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, including any remaining balances from prior fiscal years, shall be deposited in a separate account, 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 1, 2018. 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/ Footnote for one-time funding: In addition to any other appropriations, the sum of \$1,000,000 is appropriated from the state General Fund in FY 2019 to the University of Arizona to be used for operating expenses of the Center for the Philosophy of Freedom. This amount supplements and does not supplant any existing state funding or private or external donations to the center. The appropriated amounts and all private and external donations to the center, including any remaining balances from prior fiscal years, shall be deposited in a separate account, must be used only for the direct operation of the center and may not be used for indirect costs of the university. (General Appropriation Act footnote)
- 7/ The sum of \$8,000,000 is appropriated from the state General Fund in FY 2019 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 \$4,245,000, 2) Northern Arizona University \$1,590,200, 3) University of Arizona \$2,164,800. On or before August 1, 2018, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in subsection A of this section 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)
- 8/ The \$1,000,000 of FY 2018 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.
- 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. (General Appropriation Act footnote)
- 12/ The FY 2019 General Fund budget as adjusted for statewide adjustments is \$208,836,400. This amount includes \$179,669,700 in UA - Main's individual section of the FY 2018 General Appropriation Act, \$1,199,200 for statewide adjustments, \$14,251,000 in A.R.S. § 15-1670 lease-purchase appropriations, \$10,551,700 in A.R.S. § 15-1671 capital infrastructure appropriations, a one-time \$2,164,800 appropriation in Section 131 of the FY 2019 General Appropriation Act for capital improvements or other operating expenditures, and a one-time \$1,000,000 appropriation in section 132 of the FY 2019 General Appropriation Act for the Center for the Philosophy of Freedom.
- 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, 2018 and all collections received by the university during the fiscal year 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)

2017 Capital Infrastructure Funding

The budget includes \$10,551,700 from the General Fund in FY 2019 for Capital Infrastructure Funding. FY 2019 adjustments are as follows:

2017 Capital Infrastructure Funding

The budget includes an increase of \$10,551,700 from the General Fund in FY 2019 for Capital Infrastructure Funding.

Laws 2017, Chapter 328 established 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. Since this funding appears in A.R.S. § 15-1671, this funding does not appear in the FY 2019 General Appropriation Act.

(Please see the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)

Agriculture

The budget includes \$42,641,300 and 743.8 FTE Positions in FY 2019 for the Agriculture Programs. These amounts consist of:

General Fund	28,592,600
University Collections Fund	14,048,700

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$265,300 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	195,100
University Collections Fund	70,200

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 \$16,472,300 and 354.8 FTE Positions in FY 2019 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,562,300
University Collection Fund	1,910,000

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$114,200 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	104,200
University Collections Fund	10,000

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 2019 for the Arizona Financial Aid Trust (AFAT). This amount is unchanged from 2018. *(Please see the Other Issues: Arizona Financial Aid Trust narrative in the ABOR section for more information).*

Arizona Geological Survey

The budget includes \$948,500 from the General Fund in FY 2019 for the Arizona Geological Survey. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$7,500 from the General Fund in FY 2019 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.

(Please see Geological Survey Transfer in Other Issues in the University of Arizona section of the FY 2018 Baseline Book for more information.)

Center for the Philosophy of Freedom

The budget includes \$3,526,500 and 37.4 FTE Positions from the General Fund in FY 2019 for the Center for the Philosophy of Freedom (CPF). FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$26,500 from the General Fund in FY 2019 for statewide adjustments.

The FY 2019 General Appropriation Act also specifies that the state appropriations and all private and external donations to the school must be deposited into a separate account.

Both the FY 2018 and FY 2019 funding for this line item include \$1,000,000 that is designated as one-time.

This line item supports the CPF, which is within the UA Department of Political Economy and Moral Science. The CPF's functions include publishing research, undergraduate education, graduate education, and community outreach.

Mining, Mineral and Natural Resources Educational Museum

The budget includes \$428,800 and 1 FTE Position from the General Fund in FY 2019 for the Mining, Mineral, and Natural Resources Educational Museum. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$500 from the General Fund in FY 2019 for statewide adjustments.

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). *(Please see Mining, Mineral and Natural Resources Educational Museum Transfer in Other Issues in the University of Arizona section of the FY 2018 Baseline Book for more information.)*

Laws 2017, Chapter 221 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 funds a curator and monies that will be used by the University to pay for repairs to the building.

One-Time Funding

The budget includes \$2,164,800 from the General Fund in FY 2019 for the One-Time Funding line item. FY 2019 adjustments are as follows:

Adjusted One-Time Funding

The budget includes a decrease of \$(992,900) from the General Fund in FY 2019 for the adjustment of one-time funding for capital improvements or operating expenditures.

The FY 2018 budget included \$3,157,700 of one-time funding for capital improvements or operating expenditures. UA used its FY 2018 one-time funding to upgrade its financial system, update its main website, and to make cyber security upgrades.

Sierra Vista Campus

The budget includes \$9,176,300 and 80.5 FTE Positions in FY 2019 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,759,900
University Collections Fund	6,416,400

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$43,400 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	16,100
University Collections Fund	27,300

UA - Sierra Vista 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 2019 General Fund budget is \$208,836,400. Of this amount:

- \$179,669,700 is included in UA - Main's individual section of the FY 2019 General Appropriation Act.
- \$1,199,200 is for statewide adjustments.
- \$14,251,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$10,551,700 is appropriated in A.R.S. § 15-1671 for new university research facilities, building renewal, or other capital construction projects.
- \$2,164,800 is a one-time appropriation in section 131 of the FY 2019 General Appropriation Act for capital improvements or operating expenditures.
- \$1,000,000 is a one-time appropriation in section 132 of the FY 2019 General Appropriation Act for operating expenditures of the Center for the Philosophy of Freedom.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, UA - Main's General Fund costs are projected to decrease by \$(3,961,200) in FY 2020 below FY 2019, and increase by \$216,600 in FY 2021 above FY 2020.

These estimates are based on:

- A \$(2,164,800) decrease in FY 2020 for the removal of one-time funding for capital or operating expenditures.
- A \$(1,006,600) decrease in FY 2020 for the removal of one-time funding for statewide adjustments.
- A \$(1,000,000) decrease in FY 2020 for the removal of one-time funding for the Center for the Philosophy of Freedom.
- A \$(800) decrease in FY 2020 and a \$1,300 increase in FY 2021 to adjust for university debt service costs. *(Please see the 2003 Research Infrastructure Refinancing narrative for more information.)*
- Increases of \$211,000 and \$215,300 in FY 2020 and FY 2021, respectively, to increase the university's annual Capital Infrastructure Funding appropriation by 2% each year. (The GDP inflator is currently projected at 2.34% for FY 2020 and 2.44% for FY 2021; statute funds the lesser of 2% or the actual rate). *(Please see the 2017 University Capital Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

University Collections and FTE Positions Adjustments

Including statewide adjustments, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) appropriated \$408,320,500 from the University Collections Fund to UA - Main in FY 2018. 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 as 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 2018 to the Joint Legislative Budget Committee in August 2017, and UA incorporated the adjusted FY 2018 amounts as part of their FY 2019 budget submission. Accordingly, the estimated FY 2018 amount has been adjusted upward by \$1,774,200 to \$410,094,700.

The FY 2019 University Collections Fund amount is increased by \$1,990,900 for statewide adjustments to \$412,085,600.

The FY 2018 FTE Position count has also been adjusted. Laws 2017, Chapter 305 originally appropriated 6,009.5 FTE Positions in FY 2018 for UA - Main. The General Fund accounted for 2,063.3 FTE Positions and the University Collections Fund accounted for the remaining 3,946.2 FTE Positions. The estimated number of FY 2018 FTE Positions has been adjusted by 55 to 6,064.5. The General Fund accounts for 2,084.4 FTE Positions and the University Collections Fund accounts for the remaining 3,980.1 FTE Positions.

University of Arizona - Health Sciences Center

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,157.3	1,176.3	1,176.3 ^{1/}
Personal Services	51,269,000	52,547,600	52,547,600
Employee Related Expenditures	18,218,600	18,119,100	17,586,600
Professional and Outside Services	687,200	722,700	722,700
Travel - In State	36,600	38,900	38,900
Travel - Out of State	123,100	6,700	6,700
Other Operating Expenditures	4,001,300	4,236,000	4,236,000
OPERATING SUBTOTAL	74,335,800	75,671,000	75,138,500
SPECIAL LINE ITEMS			
Clinical Rural Rotation	361,100	353,400	353,600
Clinical Teaching Support	8,587,000	8,587,000	8,587,000
Liver Research Institute	439,000	440,100	440,400
Phoenix Medical Campus	34,392,700	32,466,200	32,484,500
Telemedicine Network	1,669,000	1,669,000	1,670,000
AGENCY TOTAL	119,784,600	119,186,700	118,674,000 ^{2/3/}
FUND SOURCES			
General Fund	68,859,800	69,437,700	68,897,700 ^{4/5/6/}
<u>Other Appropriated Funds</u>			
University Collections Fund	50,924,800	49,749,000	49,776,300 ^{7/}
SUBTOTAL - Other Appropriated Funds	50,924,800	49,749,000	49,776,300
SUBTOTAL - Appropriated Funds	119,784,600	119,186,700	118,674,000
Other Non-Appropriated Funds	393,087,500	404,274,200	418,424,100
Federal Funds	101,687,900	104,738,300	108,404,100
TOTAL - ALL SOURCES	614,560,000	628,199,200	645,502,200

AGENCY DESCRIPTION — The University of Arizona's Health Sciences Center (UA-HSC) includes its Colleges of Medicine, Nursing, Pharmacy, and Public Health. UA-HSC also currently operates a medical campus in Phoenix that opened in FY 2006. The UA-HSC had 3,742 full-time equivalent non-medical students and approximately 800 medical students at its campuses in fall 2017.

Operating Budget

The budget includes \$75,138,500 and 740.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$34,576,900
University Collections Fund	40,561,600

FY 2019 adjustments are as follows:

- 1/ Includes 381.2 GF and 55.0 OF FTE Positions funded from Special Line Items in FY 2019.
- 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/ The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- 5/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 6/ The FY 2019 General Fund budget as adjusted for statewide adjustments is \$68,897,700. This amount includes \$68,859,800 in UA - HSC's individual section of the FY 2019 General Appropriation Act and \$37,900 for statewide adjustments.
- 7/ Any unencumbered balances remaining in the University Collections Fund on June 30, 2018 and all collections received by the university during the fiscal year 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)

Statewide Adjustments

The budget includes a decrease of \$(532,500) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(555,100)
University Collections Fund	22,600

(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 \$353,600 and 6.2 FTE Positions from the General Fund in FY 2019 for the Clinical Rural Rotation program. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$200 from the General Fund in FY 2019 for statewide adjustments.

This line item funds the Rural Health Professions Program, which enables nurse practitioner, medical, and pharmacy students to plan and complete clinical practice rotations in rural and medically under-served sites throughout the state.

Clinical Teaching Support

The budget includes \$8,587,000 and 214.2 FTE Positions from the General Fund in FY 2019 for Clinical Teaching Support. These amounts are unchanged from FY 2018.

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.

Liver Research Institute

The budget includes \$440,400 and 6.6 FTE Positions from the General Fund in FY 2019 for the Liver Research Institute. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$300 from the General Fund in FY 2019 for statewide adjustments.

The Liver Research Institute conducts clinical studies on all liver diseases, focusing on chemical and natural agents that may offer a cure for such ailments. The line item also supports a research development program that actively pursues outside grants and donations.

Phoenix Medical Campus

The budget includes \$32,484,500 and 193.9 FTE Positions in FY 2019 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,269,800
University Collections Fund	9,214,700

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$18,300 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	13,600
University Collections Fund	4,700

The Phoenix Medical Campus currently has approximately 320 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 \$1,670,000 and 15.3 FTE Positions from the General Fund in FY 2019 for the Telemedicine Network. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$1,000 from the General Fund in FY 2019 for statewide adjustments.

Telemedicine is the use of computers, video imaging, broadband Internet, and other telecommunication

technologies to diagnose and treat patients in rural communities.

Other Issues

University Collections Adjustments

Including statewide adjustments, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) appropriated \$47,899,600 from the University Collections Fund to UA - HSC in FY 2019. 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 as 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 2018 to the Joint Legislative Budget Committee in August 2017, and UA incorporated the adjusted FY 2018 amounts as part of their FY 2019 budget submission. Accordingly, the estimated FY 2018 amount has been adjusted upward by \$1,849,400 to \$49,749,000.

The FY 2019 University Collections Fund amount is increased by \$27,300 for statewide adjustments to \$49,776,300.

The FY 2018 FTE Position count has also been adjusted. Laws 2017, Chapter 305 originally appropriated 1,157.3 FTE Positions in FY 2018 for the UA - HSC. The General Fund accounted for 724.8 FTE Positions and the University Collections Fund accounted for the remaining 432.5 FTE Positions. The estimated number of FY 2018 FTE Positions has been adjusted by 19 to 1,176.3. The General Fund accounts for 724.8 FTE Positions and the University Collections Fund accounts for the remaining 451.5 FTE Positions.

Department of Veterans' Services

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	512.3	512.3	497.3 ^{1/}
Personal Services	1,396,800	1,026,900	1,026,900
Employee Related Expenditures	484,900	407,600	400,200
Professional and Outside Services	82,000	225,000	225,000
Travel - In State	23,200	25,000	25,000
Travel - Out of State	8,900	7,000	7,000
Other Operating Expenditures	535,200	589,700	589,700
Equipment	55,300	50,000	50,000
OPERATING SUBTOTAL	2,586,300	2,331,200	2,323,800
SPECIAL LINE ITEMS			
Arizona State Veterans' Cemeteries	919,100	935,200	930,800
Arizona State Veterans' Homes	29,787,900	35,492,700	35,414,100
Hyperbaric Oxygen Therapy Fund Deposit	0	0	25,000 ^{2/3/}
Veterans' Benefit Counseling	2,685,700	2,849,400	2,841,000
AGENCY TOTAL	35,979,000	41,608,500	41,534,700 ^{4/}
FUND SOURCES			
General Fund	5,883,500	6,115,800	6,120,600
<u>Other Appropriated Funds</u>			
State Home for Veterans' Trust Fund	29,787,900	35,492,700	35,414,100
State Veterans' Conservatorship Fund	307,600	0	0
SUBTOTAL - Other Appropriated Funds	30,095,500	35,492,700	35,414,100
SUBTOTAL - Appropriated Funds	35,979,000	41,608,500	41,534,700
Other Non-Appropriated Funds	3,581,100	3,903,400	3,536,100
Federal Funds	1,541,900	2,159,300	2,159,300
TOTAL - ALL SOURCES	41,102,000	47,671,200	47,230,100

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, and operates 3 veterans' memorial cemeteries in Sierra Vista, Marana, and Flagstaff.

Operating Budget

The budget includes \$2,323,800 and 46.8 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Conservatorship FTE Positions

The budget includes a decrease of (16) FTE Positions from the State Veterans' Conservatorship Fund in FY 2019 for the elimination of the Conservatorship Program. The FY 2018 budget removed the conservatorship appropriation, but did not address the removal of program FTE Positions.

^{1/} Includes 69.5 GF and 381 OF FTE Positions funded from Special Line Items in FY 2019.

^{2/} Laws 2018, Chapter 98 appropriated \$25,000 from the General Fund in FY 2019 and \$25,000 from the Hyperbaric Oxygen Therapy for Military Veterans Fund in FY 2023 for hyperbaric oxygen therapy.

^{3/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes a decrease of \$(7,400) from the General Fund in FY 2019 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Arizona State Veterans' Cemeteries

The budget includes \$930,800 and 12.5 FTE Positions from the General Fund in FY 2019 for the Arizona State Veterans' Cemeteries. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(4,400) from the General Fund in FY 2019 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 interment 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 was completed in FY 2018. The Flagstaff cemetery opened in June 2016 and was completed in FY 2017.

Arizona State Veterans' Homes

The budget includes \$35,414,100 and 381 FTE Positions from the State Home for Veterans' Trust Fund in FY 2019 for the Arizona State Veterans' Homes. FY 2019 adjustments are as follows:

Compliance Auditor

The budget includes an increase of \$71,100 and 1 FTE Position from the State Home for Veterans' Trust Fund in FY 2019 for a financial compliance auditor. The auditor will monitor agency financial operations and compliance with regulatory requirements.

Statewide Adjustments

The budget includes a decrease of \$(149,700) from the State Home for Veterans' Trust Fund in FY 2019 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.

Hyperbaric Oxygen Therapy Fund Deposit

The budget includes \$25,000 from the General Fund in FY 2019 for a one-time deposit to the Hyperbaric Oxygen Therapy for Military Veterans Fund. FY 2019 adjustments are as follows:

New Program

The budget includes an increase of \$25,000 from the General Fund in FY 2019 for a one-time deposit to the Hyperbaric Oxygen Therapy for Military Veterans Fund.

The Hyperbaric Oxygen Therapy for Military Veterans Fund was created by Laws 2018, Chapter 98. Hyperbaric oxygen therapy is a medical treatment which enhances the body's healing process by inhalation of 100% oxygen in a total body chamber where atmospheric pressure is increased and controlled.

Monies in the fund are non-appropriated and non-lapsing. The bill requires an advisory committee to provide financial assistance from the fund to veterans for hyperbaric oxygen therapy. The Department of Veterans' Services may seek reimbursement to the fund if the therapy is fully or partially covered by private insurance.

The bill also appropriated \$25,000 from the Hyperbaric Oxygen Therapy for Military Veterans Fund to the General Fund in FY 2023.

Veterans' Benefit Counseling

The budget includes \$2,841,000 and 57 FTE Positions from the General Fund in FY 2019 for Veterans' Benefit Counseling. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(8,400) from the General Fund in FY 2019 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 department received a commitment for the other 65% share of the cost from the federal government in FY 2018.

The Department of Veterans' Services reports that construction costs have increased since initial estimates were made in 2015. The federal government allows a one-time 10% increase in construction costs for both homes after the funding commitment has been made. The state is required to pay 35% of this increase, or \$1.9

million, before the federal government commits to the other 65%, or \$5.5 million.

The FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277) appropriated an additional \$4.0 million for the Yuma Veterans' Home and \$4.0 million for the Flagstaff Veterans' Home from the State Home for Veterans' Trust Fund in FY 2019. These appropriations cover the state's share of the one-time 10% cost increase, and allow the department to increase the size of both facilities from 60 beds to 80 beds.

The department is required to submit the scope, purpose, and estimated cost for the new facilities to the Joint Committee on Capital Review prior to expenditure. Construction will begin in FY 2019.

Arizona State Veterinary Medical Examining Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	234,200	359,200	359,200
Employee Related Expenditures	77,500	116,700	114,300
Professional and Outside Services	37,500	37,700	52,100
Travel - In State	5,400	4,500	4,500
Travel - Out of State	0	1,600	1,600
Other Operating Expenditures	164,900	68,800	72,300
Equipment	2,600	1,500	1,500
AGENCY TOTAL	522,100	590,000	605,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Veterinary Medical Examining Board Fund	522,100	590,000	605,500
SUBTOTAL - Other Appropriated Funds	522,100	590,000	605,500
SUBTOTAL - Appropriated Funds	522,100	590,000	605,500
TOTAL - ALL SOURCES	522,100	590,000	605,500

AGENCY DESCRIPTION — The board licenses and regulates veterinarians, veterinary technicians, and veterinary premises. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The budget includes \$605,500 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

One-Time Online Services Enhancement

The budget includes a one-time increase of \$14,400 from the Veterinary Medical Examining Board Fund in FY 2019 to add features to the board's online licensing system.

Statewide Adjustments

The budget includes an increase of \$1,100 from the Veterinary Medical Examining Board Fund in FY 2019 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

One-Time Relocation Costs

The agency received a one-time non-lapsing FY 2017 appropriation of \$12,500 for relocation costs. This appropriation is not displayed in the table above.

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

Department of Water Resources

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.0	139.0	139.0 ^{1/}
Personal Services	4,102,100	5,181,400	5,181,400
Employee Related Expenditures	1,521,100	2,003,600	1,980,000
Professional and Outside Services	130,400	195,200	195,200
Travel - In State	69,700	159,400	159,400
Travel - Out of State	50,200	67,400	67,400
Other Operating Expenditures	1,369,900	1,651,500	1,675,200
Equipment	321,500	371,500	371,500
OPERATING SUBTOTAL	7,564,900	9,630,000	9,630,100
SPECIAL LINE ITEMS			
Adjudication Support	1,246,000	1,749,500	1,740,100 ^{2/}
Assured and Adequate Water Supply Administration	1,630,700	1,998,600	1,992,400 ^{3/}
Automated Groundwater Monitoring	235,100	413,100	411,500
Colorado River Legal Expenses	34,100	500,000	500,000 ^{4/5/}
Conservation and Drought Program	396,800	412,300	410,200
Drought Contingency Program	0	2,000,000	2,000,000 ^{5/6/}
Northwest Basins Groundwater Study	0	0	100,000 ^{5/7/}
Rural Water Studies	1,091,700	1,168,000	1,162,600 ^{8/}
Arizona Water Protection Fund Deposit	0	250,000	650,000 ^{9/}
AGENCY TOTAL	12,199,300	18,121,500	18,596,900 ^{10/}
FUND SOURCES			
General Fund	11,590,600	16,001,900	16,169,800
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	0	266,800	268,500
Water Banking Fund	0	1,211,400	1,212,200
Water Resources Fund	608,700	641,400	946,400
SUBTOTAL - Other Appropriated Funds	608,700	2,119,600	2,427,100
SUBTOTAL - Appropriated Funds	12,199,300	18,121,500	18,596,900
Other Non-Appropriated Funds	19,987,500	8,229,800	8,229,800
Federal Funds	312,500	253,100	253,100
TOTAL - ALL SOURCES	32,499,300	26,604,400	27,079,800

AGENCY DESCRIPTION — The Department of Water Resources administers and enforces Arizona's groundwater and surface water law, as well as legally representing the state's water rights. The department also participates in surveying water level and quality and planning flood control.

^{1/} Includes 60 GF FTE Positions funded from Special Line Items in FY 2019.

^{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 Department of Water Resources may not transfer any monies from the Colorado River Legal Expenses line item without prior review by the Joint Legislative Budget Committee. (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)

^{6/} Laws 2017, Chapter 305 appropriated \$2,000,000 from the 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.

Operating Budget

The budget includes \$9,630,100 and 79 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$7,971,500
Water Banking Fund	1,212,200
Water Resources Fund	446,400

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$100 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(5,700)
Water Banking Fund	800
Water Resources Fund	5,000

(Please see the Agency Detail and Allocations section.)

Fund Shift

The budget includes a decrease of \$(300,000) from the General Fund in FY 2019 and a corresponding increase of \$300,000 in FY 2019 from the Water Resources Fund for operational expenses.

Adjudication Support

The budget includes \$1,740,100 and 21 FTE Positions from the General Fund in FY 2019 for Adjudication Support. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,400) from the General Fund in FY 2019 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 \$1,992,400 and 21 FTE Positions in FY 2019 for the Assured and Adequate Water Supply (AAWS) Administration Program. These amounts consist of:

General Fund	1,723,900
AAWS Administration Fund	268,500

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(6,200) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	(7,900)
AAWS Administration Fund	1,700

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 \$411,500 and 2 FTE Positions from the General Fund in FY 2019 for Automated Groundwater Monitoring. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,600) from the General Fund in FY 2019 for statewide adjustments.

^{7/} Laws 2018, Chapter 280 appropriated \$100,000 from the General Fund for a groundwater study for the Northwest Basins Planning Area.

^{8/} 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)

^{9/} Laws 2018, Chapter 330 appropriated \$400,000 from the General Fund to the Arizona Water Protection Fund.

^{10/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

This line item funds 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 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.

Colorado River Legal Expenses

The budget includes \$500,000 from the Water Resources Fund in FY 2019 for Colorado River Legal Expenses. The FY 2019 budget changed the name of the line item from the Lower Colorado River Litigation Expenses in order to expand the uses for other legal costs related to the Colorado River. This amount is unchanged from FY 2018.

This line item was started 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. As of December 2017, the litigation continues. The FY 2019 budget expands the use of the monies for other legal expenses related to the Colorado River.

Conservation and Drought Program

The budget includes \$410,200 and 5 FTE Positions from the General Fund in FY 2019 for the Conservation and Drought Program. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(2,100) from the General Fund in FY 2019 for statewide adjustments.

This line item funds assistance to local communities to assess conservation needs and assists 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. This line item also funds the department administering the requirements of the Community Water Systems 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 2019 for the Drought Contingency Program line item. This amount is unchanged from FY 2018.

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 help preserve Arizona's Colorado River water allotment.

The monies in this line item are non-lapsing. The FY 2018 General Appropriation Act included 3 years of one-time \$2,000,000 appropriations for FY 2018, FY 2019, FY 2020. As a result of this advance appropriation, the FY 2019 amount does not appear in the FY 2019 General Appropriation Act.

Northwest Basins Groundwater Study

The FY 2019 Environment Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 280) appropriated \$100,000 from the General Fund in FY 2019 for a Northwest Basins groundwater study. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$100,000 from the General Fund in FY 2019 for an independent study of groundwater in the Northwest Basins Planning Area.

This line item pays for ADWR to contract for an independent study to estimate the rate of groundwater depletion in the Northwest Basins Planning Area and estimate the number of years of groundwater remaining in the basins. ADWR is required to issue an RFP that will include a mandate for a report to be distributed. The department will provide data for the contractor, and ADWR is required to submit a report of the findings on or before December 31, 2019.

Rural Water Studies

The budget includes \$1,162,600 and 11 FTE Positions from the General Fund in FY 2019 for Rural Water Studies.

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(5,400) from the General Fund in FY 2019 for statewide adjustments.

This line item funds 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.

Arizona Water Protection Fund Deposit

The budget includes \$650,000 from the General Fund in FY 2019 for the Arizona Water Protection Fund Deposit line item. FY 2019 adjustments are as follows:

One-Time Deposit

The budget includes an increase of \$400,000 from the General Fund in FY 2019 for a one-time deposit to the Water Protection Fund. Laws 2018, Chapter 330 appropriated this increase and the enacted budget's multi-year spending plan assumes the funding is one-time.

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

Fund Transfers

The budget includes the following transfers from this agency’s funds to the General Fund:

	FY 2018	FY 2019
IGA & ISA Fund	\$117,000	\$0
Indirect Cost Recovery Fund	0	1,000,000

Additional Legislation

Fee Revenue

The FY 2019 Environment BRB continues to allow the Director to maintain prior year fees in FY 2019. 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 2019 Environment Budget Reconciliation Bill (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 2019.

CAPITAL OUTLAY

Capital Outlay Summary

	FY 2019 APPROVED
BUILDING RENEWAL	
ADOA Building System	17,572,000
ADOT Building System	5,492,000
ABOR Building System	0
SUBTOTAL	23,064,000
INDIVIDUAL PROJECTS	
ADOA Building System	34,309,000
ADOT Building System	387,575,500
ABOR Building System	0
SUBTOTAL	421,884,500
DEBT AND LEASE-PURCHASE FINANCING	
2010 Leaseback Financing ^{1/}	84,112,000
LOCAL ASSISTANCE	
Phoenix Convention Center ^{2/}	22,996,300
Rio Nuevo District ^{3/}	14,000,000
SUBTOTAL	36,996,300
TOTALS	
ADOA Building System	51,881,000
ADOT Building System	393,067,500
ABOR Building System	0
Other Funding (Lease-Purchase/Local Assistance)	121,108,300
TOTAL - ALL PROJECTS ^{4/}	566,056,800
FUND SOURCES	
General Fund	126,067,300
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	12,000,000
Capitol Mall Consolidation Fund	10,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	981,400
Game and Fish Capital Improvement Fund	450,000
State Lottery Fund	126,300
State Parks Revenue Fund	7,500,000
Miners' Hospital for Miners with Disabilities Land Fund	600,000
State Highway Fund	374,827,000
State Home for Veterans' Trust Fund	8,000,000
State Aviation Fund	19,040,500
SUBTOTAL - Other Appropriated Funds	439,989,500
SUBTOTAL - Appropriated Funds	566,056,800
Other Non-Appropriated Funds	437,420,000
Federal Funds	914,274,000
TOTAL - ALL SOURCES	1,917,750,800

^{1/} This amount was appropriated or allocated by the FY 2019 General Appropriation Act (Laws 2018, Chapter 276, Section 133).

^{2/} This amount was appropriated or allocated by the FY 2019 General Appropriation Act (Laws 2018, Chapter 276, Section 134).

^{3/} This amount was appropriated or allocated by the FY 2019 General Appropriation Act (Laws 2018, Chapter 276, Section 135).

^{4/} Unless otherwise noted, amounts were appropriated by the FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277).

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 assets, which includes buildings, state parks, prisons, highways, and other facilities. 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. In addition, the state makes annual payments for the 2010 Leaseback agreement which was used for operating financing, along with local distributions for the Phoenix Convention Center and the Rio Nuevo District. Capital appropriations are typically made through the Capital Outlay Bill but may be made through other bills as well.

The following amounts are one-time appropriations:

(See the individual building systems' section for more information.)

Summary

Capital Outlay

The budget includes a total of \$566,056,800 from Appropriated Funds in FY 2019. Of the total, \$126,067,300 is from the General Fund and \$439,989,500 is from Other Appropriated Funds. The budget consists of 4 main categories: 1) Building Renewal, 2) Individual Projects, 3) Debt and Lease-Purchase Financing, and 4) Local Assistance.

Individual Projects

The budget includes total funding of \$421,884,500 in FY 2019 for individual capital projects, which consists of \$4,959,000 from the General Fund and \$416,925,500 from Other Appropriated Funds. *(See the individual building systems' sections for more information.)*

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.

Debt and Lease-Purchase Financing

The budget includes \$84,112,000 from the General Fund in FY 2019 for payments related to prior year lease-purchase agreements to resolve budget shortfalls. *(See the Debt and Lease-Purchase Financing section for more information.)*

Local Assistance

The budget includes \$36,996,300 from the General Fund in FY 2019 for the state's share of the long term financing for the Phoenix Convention Center and the Rio Nuevo Multipurpose Facilities District. *(See the Local Assistance section for more information.)*

The budget includes total funding of \$23,064,000 in FY 2019 for Building Renewal, which consists of Other Appropriated Funds. These amounts include:

	<u>FY 2019</u>
Arizona Department of Administration	\$11,000,000
Capital Outlay Stabilization Fund	
@ 24.5% (excludes ADC,	
Game and Fish, Lottery buildings)	
Department of Corrections	
ADC Building	5,464,300
Renewal Fund @ 24.5%	
Game and Fish Department	
Game and Fish Fund @ 100%	981,400
State Lottery Commission	
State Lottery Fund @ 100%	<u>126,300</u>
Subtotal - ADOA	\$17,572,000
Arizona Department of Transportation	
State Highway Fund @ 40.6%	\$5,250,000
State Aviation Fund @ 93.5%	<u>242,000</u>
Subtotal - ADOT	\$5,492,000

Capital Outlay

Arizona Department of Administration Building System

FY 2019
APPROVED

BUILDING RENEWAL

Department of Administration ^{1/2/3/}	11,000,000
Department of Corrections ^{4/}	5,464,300
Game and Fish Department ^{5/}	981,400
Arizona State Lottery Commission	126,300
SUBTOTAL ^{6/}	17,572,000

INDIVIDUAL PROJECTS ^{7/8/}

Arizona Department of Administration	
1275 W. Washington Street Demolition ^{9/}	1,000,000
Building Renovations	10,000,000
Department of Emergency and Military Affairs	
Readiness Center	3,759,000
Arizona Exposition and State Fair	
Capital Improvements	1,000,000
Game and Fish Department	
Dam Maintenance	150,000
Property Maintenance	300,000
Arizona State Parks Board	
Oracle State Park	4,000,000
Buckskin Mountain State Park	1,500,000
Capital Improvements	2,000,000
Pioneers' Home	
Capital Improvements	600,000
Department of Public Safety	
Officer Remote Housing Replacement ^{10/}	2,000,000
Department of Veteran Services ^{11/}	
Flagstaff Veterans' Home	4,000,000
Yuma Veterans' Home	4,000,000
SUBTOTAL	34,309,000

TOTAL - ALL PROJECTS **51,881,000**

FUND SOURCES

General Fund	4,959,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	12,000,000
Capitol Mall Consolidation Fund	10,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	981,400
Game and Fish Capital Improvement Fund	450,000
State Lottery Fund	126,300
State Parks Revenue Fund	7,500,000
Miners' Hospital for Miners with Disabilities Land Fund	600,000
State Highway Fund	800,000
State Home for Veterans' Trust Fund	8,000,000
SUBTOTAL - Other Appropriated Funds	46,922,000
SUBTOTAL - Appropriated Funds	51,881,000

TOTAL - ALL SOURCES ^{12/13/} **51,881,000**

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 2019 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

Unless otherwise specified, funding for capital projects is appropriated by Laws 2018, Chapter 277 (FY 2019 Capital Outlay Bill).

Building Renewal

Building Renewal

The budget includes \$17,572,000 from Other Appropriated Funds in FY 2019 for Building Renewal within the ADOA Building System. These amounts consist of:

- \$11,000,000 to ADOA from the Capital Outlay Stabilization Fund (COSF). This amount funds 24.5% of the ADOA building renewal formula. The FY 2018 appropriation of \$8,300,000 included \$2,600,000

from COSF and \$5,700,000 from the General Fund, which represented 20% of the ADOA formula. The FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277, Section 4) repeals the \$5,700,000 one-time FY 2019 General Fund appropriation made in the FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306, Section 11).

- \$5,464,300 to the Arizona Department of Corrections (ADC) from the ADC Building Renewal Fund, which funds 24.5% of the ADC building renewal formula. The FY 2018 appropriation of \$5,464,300 from the ADC Building Renewal Fund represented 26.1% of the ADC formula.
- \$981,400 to Arizona Game and Fish Department from the Game and Fish Fund which funds 100% of the Game and Fish building renewal formula. The FY

- 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. Notwithstanding Title 41, Chapter 4, Article 7, Arizona Revised Statutes, the department may use monies appropriated for building renewal in FY 2019 for building demolition. (Capital Outlay Appropriation Act footnote)
- 2/ On or before January 31, 2019 and May 30, 2019, 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 November 15, 2018, the Department of Administration shall submit to the Joint Committee on Capital Review for its review a report on the department's plan to relocate state agencies on the Capitol Mall and to renovate Capitol Mall buildings. The report shall identify agencies selected to move from privately leased space and the planned disposition of vacant state buildings. The report shall include the number of FTE Positions identified to relocate to the Capitol Mall and the total square footage needed to accommodate those FTE Positions. (Capital Outlay Appropriation Act footnote)
- 4/ On or before January 31, 2019 and July 31, 2019, 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 managing of the funded projects. (Capital Outlay Appropriation Act footnote)
- 5/ On or before January 31, 2019 and July 31, 2019, the Arizona Game and Fish Department 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)
- 6/ Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2019 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 may not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- 7/ Pursuant to A.R.S. § 41-1252, the Joint Committee on Capital Review shall review the scope, purpose, and estimated cost of a new capital project that has an estimated cost of more than \$250,000. (Capital Outlay Appropriation Act footnote)
- 8/ 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)
- 9/ Before taking any action related to the demolition of 1275 W. Washington Street, the Department of Administration shall submit the scope, purpose, and estimated cost of the demolition to the Joint Committee on Capital Review for its review. (Capital Outlay Appropriation Act footnote)
- 10/ Before spending the appropriation in Subsection A of this section, the Department of Public Safety shall submit a report on the department's procurement process for new modular units to the Joint Committee on Capital Review for its review. (Capital Outlay Appropriation Act footnote)
- 11/ The appropriation made in Subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Capital Outlay Appropriation Act footnote)
- 12/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)
- 13/ Except as provided in subsection C of this section and notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2019 that are unexpended on June 30, 2020 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)

2018 appropriation of \$530,000 from the Game and Fish Fund represented 57.0% of the Game and Fish formula.

- \$126,300 to the Arizona State Lottery Commission from the State Lottery Fund, which continues to fund 100% of the Lottery building renewal formula. The FY 2018 appropriation of \$122,200 from the State Lottery Fund also represented 100% of the Lottery building renewal formula.

Building renewal appropriations to the Department of Administration are used for major maintenance and repair activities for state buildings. The budget continues a footnote allowing 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.

The budget continues the footnote requiring that unused building renewal monies revert after 2 fiscal years at the end of FY 2020.

As session law, the Capital Outlay Bill allows ADOA to use monies appropriated for Building Renewal in FY 2019 for building demolition. ADOA reports it plans to demolish 1510 W. Adams (State Data Center) and 1520 W. Adams (Department of Agriculture Laboratory) as part of its contract to demolish 1257 W. Washington (*see discussion below*). These buildings share a common wall. The State Data Center will be vacant in December 2018 when ADOA completes its Information Technology project to relocate to a private third-party data center. ADOA is working with the Department of Agriculture to identify private laboratory space.

Individual Projects

Arizona Department of Administration Demolition

The budget includes \$1,000,000 from Capital Outlay Stabilization Fund in FY 2019 to ADOA for building demolition.

In FY 2018, the Attorney General relocated from the state-owned building located at 1275 W. Washington Street to privately leased space. ADOA reports that the cost to renovate the building exceeds the buildings value in its present condition.

Arizona Department of Administration Renovations

The budget includes \$10,000,000 from Capitol Mall Consolidation Fund in FY 2019 to ADOA for building renovations.

ADOA plans to renovate 1400 W. Washington which was vacated in FY 2018 when agencies moved into the

renovated building located at 1740 W. Washington. A footnote requires ADOA to submit a report on or before November 15, 2018 for JCCR review on its plans to relocate state agencies to the Capitol Mall and to renovate state buildings. The report shall identify agencies selected to move from privately-leased space and the planned disposition of vacant buildings. The report shall include the number of FTE Positions identified to relocate to the Capitol Mall and the total square footage needed to accommodate those FTE Positions.

The FY 2019 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 279) establishes the Capitol Mall Consolidation Fund. The fund is administered by ADOA and is used for the renovation and repair of state-owned buildings. Statute generally requires the proceeds from the sale of state property to be deposited to the fund source that paid for the property. As session law, the bill directs the sale proceeds from the properties at 2910 N 44th Street in Phoenix, 2163 Vickey Street in Flagstaff, and the northeast corner of South Horne Street and East Baseline Road in Mesa.

Department of Emergency and Military Affairs Readiness Center

The budget includes \$3,759,000 from the General Fund in FY 2019 for the state's portion of the cost associated with the construction of a Readiness Center in Tucson.

Readiness Centers serve as the home base and training center for units in the Arizona National Guard. These facilities house soldiers during drills and provide storage for equipment and weapons between exercises. The new facility will house the 222nd Transportation Company, which is an Arizona Army National Guard unit. The 222nd Transportation Company is currently stationed in modular units.

Total project costs are approximately \$24.0 million. In addition to the General Fund appropriation, the department plans to use non-appropriated fund sources including \$1.3 million from the Military Installation Fund and \$1.0 million from the State Armory Fund to fund the state's total \$6.0 million match requirement. The federal government will pay the remaining \$18.0 million.

Arizona Exposition and State Fair Capital Improvements

The budget includes \$1,000,000 from the Arizona Exposition and State Fair Fund in FY 2019 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.

Game and Fish Dam Maintenance

The budget includes \$150,000 from the Game and Fish Capital Improvement Fund in FY 2019 to the Arizona Game and Fish Department for dam maintenance.

The department owns and operates 37 dams throughout the state. The department plans to use the funds to replace radio transmitters for its flood warning system; clear trees and brush; remove roots; and pay for Department of Water Resources inspection fees.

Game and Fish Property Maintenance

The budget includes \$300,000 from the Game and Fish Capital Improvement Fund in FY 2019 to the Arizona Game and Fish Department for property maintenance.

The department owns 60 properties throughout the state. The department plans to use the funds for asbestos removal, replacement of damaged flooring and foundations, electrical rewiring and other structural repairs.

Arizona State Parks Oracle State Park

The budget includes \$4,000,000 from the State Parks Revenue Fund in FY 2019 to the State Parks Board for the Oracle State Park renovation project. Located in the Catalina Mountains in southern Arizona, the current park includes a historic ranch house serving as a museum and art exhibit, 2 ramadas, 10 picnic tables, 4 restrooms, and 15 miles of trails for hiking, mountain biking and equestrianism. The day-use only park is designated as an International Dark Sky Park for its star-gazing and also provides educational programming for schools. In FY 2017, the park had 9,500 visitors and earned \$22,000 in revenue.

The park's renovation will include the addition of 30 recreational vehicle sites, 20 tent sites, 20 cabins, 2 historic cabin restorations, 1 equestrian group camp, new hiking and mountain biking trails, a restroom shower building and a restoration of its historic ranch house. The 2-year project will be completed in a single phase, unlike the Buckskin Mountain project.

Arizona State Parks Board Buckskin Mountain State Park

The budget includes \$1,500,000 from the State Parks Revenue Fund in FY 2019 for the Buckskin Mountain State Park renovation project.

Located on the Colorado River in Parker, the current 24-hour, year round park includes a visitor center, 3

restroom/shower buildings, a gift shop, Buckskin Market (operated by concessionaire), picnic areas, 28 vehicle parking, wildlife viewing, 68 camping and recreational vehicle sites (including 21 riverside cabanas), a 2-lane boat launch ramp and hiking trails. In FY 2017, the park had 100,100 visitors and earned \$862,300 in revenue.

The park's 3-year, \$7,000,000 renovation plan will include the addition of 19 cabins, 18 recreational vehicle sites, a new boat ramp, infrastructure renewal, demolition/replacement of the concessionaire facility, new beach areas, new restroom/shower facilities, restoration of ramadas and shorelines and an expansion/restoration of existing parking lots.

For Phase 1, the \$1,500,000 in State Parks Revenue Fund monies appropriated in FY 2019 will be combined with \$1,000,000 in monies from the State Lake Improvement Fund (SLIF), a non-appropriated fund used for capital improvements at boating sites, for a total of \$2,500,000. Phase 1 will focus on demolition, water and electrical service upgrades, restroom/shower building construction, installation of 15 cabin sites and roadway construction/paving.

The board projects Phase 2 will cost \$2,500,000 (in FY 2020 or FY 2021) and Phase 3 will cost \$2,000,000 (in FY 2021 or FY 2022). The board plans to request funding for Phase 2 and Phase 3 at the appropriate budget cycles and evaluate SLIF as a funding for those phases as well.

Arizona State Parks Board Capital Improvements

The budget includes \$2,000,000 from the State Parks Revenue Fund in FY 2019 to the State Parks Board for capital improvements.

Of that amount, ASPB plans to designate \$1,300,000 for various statewide capital improvements and \$700,000 for major maintenance and repairs. Statewide capital 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. The amount for major maintenance and repairs is for when a capital asset experiences a failure that must be addressed immediately to maintain park operation. This could include projects for water/wastewater facilities, leach fields, septic tanks, roofing repairs and structural stabilization.

Arizona Pioneers' Home Capital Improvements

The budget includes \$600,000 from the from the Miners' Hospital for Miners with Disabilities Land Fund in FY 2019

to the Arizona Pioneers' Home for capital improvement projects.

The agency plans to spend the appropriation on window replacements, renovation of an elevator enclosure, bathroom remodels, water system improvements, replacement of the fire alarm system, and cemetery road repairs.

Department of Public Safety Officer Remote Housing

The budget includes \$2,000,000 in FY 2019 for the Department of Public Safety (DPS) to replace officer remote housing units. This amount consists of:

General Fund	\$1,200,000
State Highway Fund	800,000

DPS provides remote housing for state troopers whose duty posts are in rural areas. The department reports many of the units are well beyond their estimated useful life. The department reports it plans to replace at least 6 critical units with the FY 2019 funding. A footnote requires DPS submit a report to the JCCR for review on its procurement process for purchasing the new housing units.

Department of Veterans' Services Flagstaff Veterans' Home

The budget includes \$4,000,000 from State Home for Veterans' Trust Fund in FY 2019 to the Department of Veterans' Services for additional construction costs for the Flagstaff Veterans' Home.

The FY 2017 budget included \$10,000,000 from the General Fund for the construction of a Veterans' home in Flagstaff. The amount appropriated reflected 35% of the estimated cost of the home. The department received a commitment for the other 65% share of the cost from the federal government in FY 2018.

The Department of Veterans' Services reports that construction costs have increased since initial estimates were made. The federal government allows a one-time 10% increase in construction costs after the funding commitment has been made. The state is required to pay 35% of this increase, before the federal government commits to the other 65%. The FY 2019 appropriation covers the state's share of the one-time 10% cost increase.

In addition, the appropriation allows the department to increase the size of the facility by 20 beds (from 60 beds to 80 beds) with 100% state funds. The FY 2019 Capital Outlay Bill notwithstanding the prior requirements that the department receive a 65% match for the total cost for the

project. In addition, as session law, the bill allows the department to use Veterans' Home Trust Fund monies for the construction of the home.

Department of Veterans' Services Yuma Veterans' Home

The budget includes \$4,000,000 from State Home for Veterans' Trust Fund in FY 2019 to the Department of Veterans' Services for additional construction costs for the Yuma Veterans' Home.

The FY 2015 budget included \$9,200,000 from the General Fund for the construction home Yuma. The amount appropriated reflected 35% of the estimated cost of the home. The department received a commitment for the other 65% share of the cost from the federal government in FY 2018.

As discussed above, the department reports that that construction costs have increased since initial estimates were made. In addition, the department reports that it plans to increase the size of the facility by 20 beds (from 60 beds to 80 beds) with 100% state funds. This appropriation funds the state match for the 10% increase in construction costs and the increased costs associated with building a larger facility.

Other Issues

Additional Legislation

FY 2017 Game and Fish Capital Improvements Appropriation Non-Lapsing Status

The budget extends the non-lapsing status of the Game and Fish Department's FY 2017 capital improvements appropriation from the end of FY 2018 to the end of FY 2019. This grants the department additional time to complete its renovations of the Sterling Springs Hatchery. The project was delayed due to unforeseen environmental compliance and historical preservation issues. In September 2017 and April 2018, the JCCR favorably reviewed the project.

FY 2017 ADOA Works Progress Administration Civics Building Appropriation Non-Lapsing Status

The budget extends the non-lapsing status of the ADOA FY 2017 building renewal appropriation for the repair of the 1938 Works Progress Administration building located on the State Fairgrounds from the end of FY 2018 to the end of FY 2020. This grants the department and the State Fair Board additional time to secure the matching funding from the City of Phoenix.

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) allocated \$120,000 from the ADOA building renewal

appropriation to the project. The bill stipulated that ADOA may not spend the monies allocated unless the department receives matching funds from the City of Phoenix and the state maintains ownership of the building. The City of Phoenix has approved \$200,000 for the historical preservation and renovation of the building contingent on a conservation easement. The State Fair Board is in the process of negotiating terms of the matching funds.

COSF Rental Rate Change & Payment Adjustments

The budget funds changes in agency lease-purchase and rental charges. *(Please see the Agency Detail and Allocations Section for additional details.)*

Excluding the ADOA sale/leaseback (which is budgeted separately) the lease-purchase and rent changes from FY 2018 are as follows:

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 628,700	\$ 370,100
• State Building Rent	<u>1,754,400</u>	<u>2,259,000</u>
	\$ 2,383,100	\$2,629,100

Lease-Purchase

In FY 2019, lease-purchase payments will increase by \$370,100, of which \$628,700 is from the General Fund, \$(288,800) from Other Appropriated Funds, and \$30,200 from Non-Appropriated Funds. The \$(3,100) change in the ADOA sale/leaseback is excluded as that item is separately budgeted.

Rent Adjustments

In FY 2019, state building rent payments will increase by \$2,259,000 which consists of \$1,754,400 from the General Fund, \$382,300 from Other Appropriated Funds, and \$122,300 from Non-Appropriated Funds.

The increase in rent payments is primarily due to increased rental rates. The FY 2019 Budget Procedures BRB (Laws 2018, Chapter 279) sets the FY 2019 COSF rental rate charged by ADOA at \$16.08 per square foot for rentable office space and \$5.79 per square foot for rentable storage space. These amounts increase the office rate by \$3.00 a square foot and storage space by \$1.05 a square foot.

Changes to the rent payments also reflect changes in rent due to renovations, agency relocations, and agency space consolidations, including the following:

- The Attorney General’s Office vacated its space located at 1275 W. Washington and relocated to private leased space. ADOA plans to demolish the building.
- Most of the state’s 90/10 regulatory boards relocated from state-owned and privately leased space to the newly renovated 1740 W. Adams. These relocations left state-owned buildings at Doubletree Road and 1400 W. Washington vacant. ADOA sold the Doubletree building in FY 2018. The sale generated approximately \$3.1 million in revenue to the General Fund. ADOA plans to renovate 1400 W. Washington.
- ADOA is currently in the process of selling the building located at 2910 North 44th Street. The Department of Insurance, Department of Financial Institutions, and the State Real Estate Department will relocate to the ADOA building on the Capitol Mall. These agencies will make lease-purchase payments for their space. The Auditor General will remain at the 44th Street building and pay private rent to the new owner.

The budget includes an updated Summary of Rent Charges, which reflects updated space utilization amounts when applying the current rental rates of state building space (Office - \$16.08 per sq. ft./Storage - \$5.79 per sq. ft.). *(Please see Summary of Rent Charges for additional information.)*

Agency Relocation

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. *(See Table 1 for the allocations.)* The FY 2018 budget made this funding non-lapsing through the end of FY 2018.

Table 1	
Relocation Allocation	
Agency Fund	FY 2017
Acupuncture Board of Examiners Fund	\$ 2,100
Special Services Revolving Fund	18,600
Capital Outlay Stabilization Fund	26,900
Athletic Training Fund	2,200
Board of Barbers Fund	10,100
Board of Behavioral Health Examiners Fund	32,600
Board of Chiropractic Examiners Fund	11,400
Board of Cosmetology Fund	50,800
Dental Board Fund	26,700
Board of Funeral Directors' and Embalmers' Fund	7,600
Board of Homeopathic and Integrated Medicine Examiners Board	2,100
Board of Massage Therapy Fund	10,100
Arizona Medical Board Fund	105,900
Naturopathic Physicians Medical Board Fund	3,900
Board of Nursing Fund	108,500
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	7,900
Occupational Therapy Fund	4,000
Board of Dispensing Opticians Fund	2,100
Board of Optometry Fund	4,100
Board of Osteopathic Examiners Fund	16,400
Personnel Board Subaccount of the Personnel Division Fund	3,900
Board of Physical Therapy Fund	8,400
Podiatry Fund	3,800
Board for Private Postsecondary Education Fund	10,200
Board of Psychologist Examiners Fund	7,900
Board of Respiratory Care Examiners Fund	7,500
Veterinary Medical Examining Board Fund	12,500
Unallocated	<u>68,600</u>
Total	\$576,800

LEASE-PURCHASE APPROPRIATIONS 1/ Department of Administration Building System

	Fiscal Year 2018 - Appropriations Report				Fiscal Year 2019 - Appropriations Report				Difference FY 2019 - FY 2018			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Administration, AZ Department of Sale/Lease-Back	\$84,115,100			\$84,115,100	\$84,112,000			\$84,112,000	(\$3,100)			(\$3,100)
Arizona Department of Administration Buildings <u>2/</u>												
Accountancy, State Board of		\$113,000		\$113,000		\$115,900		\$115,900		\$2,900		\$2,900
Administration, Arizona Department of Deaf and the Hard of Hearing, Commission for the	\$805,500	2,075,800	\$216,900	3,098,200	\$536,200	1,381,900	\$144,400	2,062,500	(\$269,300)	(693,900)	(\$72,500)	(1,035,700)
Economic Opportunity, Office of <u>3/</u>	26,000	13,800	227,500	267,300	49,300	24,700	200,100	274,100	23,300	10,900	(27,400)	6,800
Equalization, State Board of	88,400			88,400	90,700			90,700	2,300			2,300
Financial Institutions, Department of					226,900	43,200		270,100	226,900	43,200		270,100
Insurance, Department of					293,300			293,300				293,300
Real Estate Department, State					190,300		97,800	190,300	190,300			190,300
Tax Appeals, State Board of	34,000			34,000	34,900			34,900	900			900
Subtotal - ADOA Building	\$953,900	\$2,419,400	\$444,400	\$3,817,700	\$1,421,600	\$1,788,100	\$442,300	\$3,652,000	\$467,700	(\$631,300)	(\$2,100)	(\$165,700)
Corrections, Arizona Department of												
4,000 Public Prison Beds <u>4/</u>	\$15,806,400			\$15,806,400	\$15,803,200			\$15,803,200	(\$3,200)			(\$3,200)
Water and Wastewater Projects <u>4/</u>	645,100			645,100	649,200			649,200	4,100			4,100
1,000 Public Prison Beds - Refinance <u>5/</u>	3,071,900			3,071,900	3,072,900			3,072,900	1,000			1,000
Kingman - Refinance <u>6/</u>	17,463,300			17,463,300	17,465,400			17,465,400	2,100			2,100
Subtotal - AZ Department of Corrections	\$36,986,700			\$36,986,700	\$36,990,700	\$0	\$0	\$36,990,700	\$4,000	\$0	\$0	\$4,000
Department of Environmental Quality Building <u>2/</u>												
Automobile Theft Authority						\$43,800		\$43,800		\$43,800		\$43,800
Administration, Arizona Department of Criminal Justice Commission, Arizona		\$10,700	\$167,300	\$178,000	\$55,900	144,000	\$15,100	215,000	\$55,900	144,000	\$15,100	215,000
Environmental Quality, Department of		3,188,100		3,188,100		3,277,100		3,277,100		89,000	4,700	5,000
Forestry and Fire Management, AZ Department of	\$211,800		31,600	243,400	229,200		34,200	263,400	17,400		2,600	20,000
Gaming, Department of		553,300		553,300		568,900		568,900		15,600		15,600
Housing, AZ Department of	65,400	21,900	349,000	436,300	67,300	22,400	358,900	448,600	1,900	500	9,900	12,300
Residential Utility Consumer Office		106,600		106,600		109,600		109,600		3,000		3,000
Technical Registration, State Board of		174,100		174,100		179,000		179,000		4,900		4,900
Water Resources, Department of	757,100			757,100	778,300			778,300	21,200			21,200
Subtotal - ADEQ Building	\$1,034,300	\$4,054,700	\$547,900	\$5,636,900	\$1,130,700	\$4,355,800	\$580,200	\$6,066,700	\$96,400	\$301,100	\$32,300	\$429,800
Health Services, Department of												
Health Services Building - Refinance <u>7/</u>	\$1,994,100	\$1,329,800		\$3,323,900	\$2,058,300	\$1,372,200		\$3,430,500	\$64,200	\$42,400		\$106,600
Health Lab - Refinance <u>5/</u>		2,033,300		2,033,300		2,032,300		2,032,300		(1,000)		(1,000)
Arizona State Hospital Forensic Unit <u>4/</u>	3,063,600			3,063,600	3,060,000			3,060,000	(3,600)			(3,600)
Subtotal - Department of Health Services	\$5,057,700	\$3,363,100		\$8,420,800	\$5,118,300	\$3,404,500	\$0	\$8,522,800	\$60,600	\$41,400	\$0	\$102,000
GRAND TOTAL	\$128,147,700	\$9,837,200	\$992,300	\$138,977,200	\$128,773,300	\$9,548,400	\$1,022,500	\$139,344,200	\$625,600	(\$288,800)	\$30,200	\$367,000

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 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.

SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2018 Appropriations Report				Fiscal Year 2019 Appropriations Report				Difference FY 2019 - FY 2018			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Acupuncture Board of Examiners												
1740 W Adams	0	0	0	\$0	0	6,500	0	6,500	0	6,500	0	6,500
1400 W Washington	0	4,600	0	4,600	0	0	0	0	0	(4,600)	0	(4,600)
Subtotal - Acupuncture Board	\$0	\$4,600	\$0	\$4,600	\$0	\$6,500	\$0	\$6,500	\$0	\$1,900	\$0	\$1,900
Administration, AZ Department of												
1510 W Adams	0	353,600	0	353,600	0	434,600	0	434,600	0	81,000	0	81,000
1520 W Adams	0	195,000	0	195,000	0	239,900	0	239,900	0	44,900	0	44,900
1537 W Jackson	0	86,000	0	86,000	0	106,400	0	106,400	0	20,400	0	20,400
1616 W Adams	0	77,300	0	77,300	0	95,000	0	95,000	0	17,700	0	17,700
1802 W Jackson	0	17,500	43,600	61,100	0	21,600	53,600	75,200	0	4,100	10,000	14,100
1840 W Jackson	0	64,500	0	64,500	0	79,000	0	79,000	0	14,500	0	14,500
1850 W Jackson	0	44,500	0	44,500	0	54,500	0	54,500	0	10,000	0	10,000
1400 W Washington	3,400	46,100	0	49,500	0	0	0	0	(3,400)	(46,100)	0	(49,500)
1700 W Washington	34,100	82,200	0	116,300	41,900	101,100	0	143,000	7,800	18,900	0	26,700
1740 W. Adams	0	0	0	0	0	77,300	0	77,300	0	77,300	0	77,300
1501 W Madison	0	41,900	0	41,900	0	74,100	0	74,100	0	32,200	0	32,200
1801 W Madison	0	21,200	0	21,200	0	26,300	0	26,300	0	5,100	0	5,100
1805 W Madison	0	24,700	0	24,700	0	30,400	0	30,400	0	5,700	0	5,700
400 W Congress, Tucson	0	47,600	0	47,600	0	58,700	0	58,700	0	11,100	0	11,100
402 W Congress, Tucson	0	56,200	0	56,200	0	69,500	0	69,500	0	13,300	0	13,300
416 W Congress, Tucson	0	2,700	0	2,700	0	3,400	0	3,400	0	700	0	700
Subtotal - AZ Dept of Administration	\$37,500	\$1,161,000	\$43,600	\$1,242,100	\$41,900	\$1,471,800	\$53,600	\$1,567,300	\$4,400	\$310,800	\$10,000	\$325,200
Administrative Hearings, Office of												
1400 W Washington	71,400	900	132,200	204,500	0	0	0	0	(71,400)	(900)	(132,200)	(204,500)
1740 W Adams	0	0	0	0	62,000	0	115,000	177,000	62,000	0	115,000	177,000
400 W Congress, Tucson	0	11,400	0	11,400	0	14,000	0	14,000	0	2,600	0	2,600
Subtotal - Office of Administrative Hearings	\$71,400	\$12,300	\$132,200	\$215,900	\$62,000	\$14,000	\$115,000	\$191,000	(\$9,400)	\$1,700	(\$17,200)	(\$24,900)
African American Affairs, AZ Commission of												
1700 W Washington	5,900	0	0	5,900	7,300	0	0	7,300	1,400	0	0	1,400
Agriculture, AZ Department of												
1520 W Adams	107,400	0	0	107,400	132,100	0	0	132,100	24,700	0	0	24,700
1688 W Adams	197,700	46,300	222,700	466,700	243,200	56,900	273,800	573,900	45,500	10,600	51,100	107,200
400 W Congress, Tucson	32,100	3,900	4,700	40,700	39,500	4,800	5,700	50,000	7,400	900	1,000	9,300
Subtotal - AZ Dept of Agriculture	\$337,200	\$50,200	\$227,400	\$614,800	\$414,800	\$61,700	\$279,500	\$756,000	\$77,600	\$11,500	\$52,100	\$141,200
AZ Health Care Cost Containment System												
Kingman Building	6,800	0	6,600	13,400	8,300	0	8,100	16,400	1,500	0	1,500	3,000
Arts, AZ Commission on the												
417 W Roosevelt	0	0	49,700	49,700	0	0	61,100	61,100	0	0	11,400	11,400
Attorney General - Department of Law												
1275 W Washington	550,100	315,400	320,100	1,185,600	0	0	0	0	(550,100)	(315,400)	(320,100)	(1,185,600)
400 W Congress, Tucson	31,300	24,500	18,300	74,100	49,700	39,000	29,100	117,800	18,400	14,500	10,800	43,700
402 W Congress, Tucson	137,700	107,900	79,900	325,500	162,300	127,100	94,100	383,500	24,600	19,200	14,200	58,000
416 W Congress, Tucson	0	0	114,900	114,900	0	0	141,900	141,900	0	0	27,000	27,000
Capitol Center	991,900	348,500	0	1,340,400	1,219,400	428,400	0	1,647,800	227,500	79,900	0	307,400
Subtotal - Attorney General - Dept of Law	\$1,711,000	\$796,300	\$533,200	\$3,040,500	\$1,431,400	\$594,500	\$265,100	\$2,291,000	(\$279,600)	(\$201,800)	(\$268,100)	(\$749,500)
Automobile Theft Authority												
1400 W Washington	0	34,700	0	34,700	0	0	0	0	0	(34,700)	0	(34,700)
Barbers, Board of												
1740 W Adams	0	0	0	0	0	22,100	0	22,100	0	22,100	0	22,100
1400 W Washington	0	12,500	0	12,500	0	0	0	0	0	(12,500)	0	(12,500)
Subtotal - Barbers Board	\$0	\$12,500	\$0	\$12,500	\$0	\$22,100	\$0	\$22,100	\$0	\$9,600	\$0	\$9,600
Behavioral Health Examiners, Board of												
1740 W Adams	0	0	0	0	0	84,000	0	84,000	0	84,000	0	84,000
Charter Schools, State Board for												
1616 W Adams	70,500	0	0	70,500	86,600	0	0	86,600	16,100	0	0	16,100
Child Safety, Department of												
1400 W Washington	0	0	42,300	42,300	0	0	0	0	0	0	(42,300)	(42,300)
Kingman Building	18,800	38,500	25,900	83,200	23,100	47,400	31,800	102,300	4,300	8,900	5,900	19,100
400 W Congress, Tucson	21,400	20,000	9,500	50,900	22,200	20,800	9,900	52,900	800	800	400	2,000
Capitol Center	115,100	32,000	66,100	213,200	141,500	39,400	81,200	262,100	26,400	7,400	15,100	48,900

	Fiscal Year 2018 Appropriations Report				Fiscal Year 2019 Appropriations Report				Difference FY 2019 - FY 2018			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Subtotal - Department of Child Safety	\$155,300	\$90,500	\$143,800	\$389,600	\$186,800	\$107,600	\$122,900	\$417,300	\$31,500	\$17,100	(\$20,900)	\$27,700
Chiropractic Examiners, State Board of												
1740 W Adams	\$0	\$0	\$0	\$0	\$0	\$20,000	\$0	\$20,000	0	20,000	0	20,000
Citizens Clean Elections Commission												
1616 W Adams	0	0	54,300	54,300	\$0	\$0	\$66,800	66,800	0	0	12,500	12,500
Contractors, Registrar of												
400 W Congress, Tucson	0	38,000	0	38,000	0	46,700	0	46,700	0	8,700	0	8,700
1700 W Washington	0	288,000	0	288,000	0	347,900	0	347,900	0	59,900	0	59,900
Subtotal - Registrar of Contractors	\$0	\$326,000	\$0	\$326,000	\$0	\$394,600	\$0	\$394,600	\$0	\$68,600	\$0	\$68,600
Corporation Commission												
1200 W Washington	0	528,200	0	528,200	0	649,300	0	649,300	0	121,100	0	121,100
1300 W Washington	0	704,900	0	704,900	0	866,600	0	866,600	0	161,700	0	161,700
400 W Congress, Tucson	5,500	47,900	3,100	56,500	6,800	58,900	3,800	69,500	1,300	11,000	700	13,000
Subtotal - Corporation Commission	\$5,500	\$1,281,000	\$3,100	\$1,289,600	\$6,800	\$1,574,800	\$3,800	\$1,585,400	\$1,300	\$293,800	\$700	\$295,800
Corrections, State Department of												
1601 W Jefferson	749,900	0	0	749,900	922,000	0	0	922,000	172,100	0	0	172,100
1645 W Jefferson	668,500	0	0	668,500	821,700	0	0	821,700	153,200	0	0	153,200
1831 W Jefferson	266,200	0	0	266,200	327,300	0	0	327,300	61,100	0	0	61,100
Subtotal - State Dept of Corrections	\$1,684,600	\$0	\$0	\$1,684,600	\$2,071,000	\$0	\$0	\$2,071,000	\$386,400	\$0	\$0	\$386,400
Cosmetology, Board of												
1740 W Adams	0	0	0	0	0	101,600	0	101,600	0	101,600	0	101,600
Deaf and the Hard of Hearing, Commission for the												
1400 W Washington	0	8,400	0	8,400	\$0	\$0	\$0	0	0	(8,400)	0	(8,400)
Dental Examiners, State Board of												
1740 W Adams	0	0	0	0	\$0	\$42,000	\$0	42,000	0	42,000	0	42,000
Economic Security, Department of												
1400 W Washington	0	0	57,200	57,200	0	0	0	0	0	0	(57,200)	(57,200)
1624 W Adams	64,100	29,200	23,400	116,700	78,800	35,900	28,700	143,400	14,700	6,700	5,300	26,700
1700 W Washington	10,400	4,800	3,800	19,000	12,800	5,900	4,700	23,400	2,400	1,100	900	4,400
1789 W Jefferson (DES West)	1,441,200	359,100	476,400	2,276,700	1,771,500	441,500	585,600	2,798,600	330,300	82,400	109,200	521,900
Kingman Building	31,900	65,500	44,000	141,400	39,200	80,500	54,100	173,800	7,300	15,000	10,100	32,400
400 W Congress, Tucson	190,600	179,600	86,400	456,600	245,700	231,400	111,300	588,400	55,100	51,800	24,900	131,800
DES Group Homes	139,200	200,100	0	339,300	171,100	245,900	0	417,000	31,900	45,800	0	77,700
Capitol Center	80,600	22,400	46,300	149,300	99,100	27,600	56,900	183,600	18,500	5,200	10,600	34,300
Subtotal - Department of Economic Security	\$1,958,000	\$860,700	\$737,500	\$3,556,200	\$2,418,200	\$1,068,700	\$841,300	\$4,328,200	\$460,200	\$208,000	\$103,800	\$772,000
Education, Department of												
1535 W Jefferson	300,800	102,900	560,100	963,800	370,100	126,500	688,700	1,185,300	69,300	23,600	128,600	221,500
400 W Congress, Tucson	0	12,000	42,600	54,600	0	23,000	81,400	104,400	0	11,000	38,800	49,800
416 W Congress, Tucson	0	900	21,400	22,300	0	0	0	0	0	(900)	(21,400)	(22,300)
Subtotal - Department of Education	\$300,800	\$115,800	\$624,100	\$1,040,700	\$370,100	\$149,500	\$770,100	\$1,289,700	\$69,300	\$33,700	\$146,000	\$249,000
Education, State Board of												
1535 W Jefferson	32,200	0	0	32,200	39,200	0	0	39,200	7,000	0	0	7,000
1700 W Washington	54,200	0	0	54,200	66,700	0	0	66,700	12,500	0	0	12,500
Subtotal - State Board of Education	\$86,400	\$0	\$0	\$86,400	\$105,900	\$0	\$0	\$105,900	\$19,500	\$0	\$0	\$19,500
Emergency and Military Affairs, Department of												
400 W Congress St	0	0	9,000	9,000	0	0	7,200	7,200	0	0	(1,800)	(1,800)
Environmental Quality, Department of												
400 W Congress, Tucson	0	96,700	0	96,700	0	122,900	0	122,900	0	26,200	0	26,200
416 W Congress, Tucson	0	0	5,300	5,300	0	0	6,500	6,500	0	0	1,200	1,200
Subtotal - Dept. of Environmental Quality	\$0	\$96,700	\$5,300	\$102,000	\$0	\$122,900	\$6,500	\$129,400	\$0	\$26,200	\$1,200	\$27,400
Equalization, State Board of												
400 W Congress, Tucson	19,800	0	0	19,800	24,400	0	0	24,400	4,600	0	0	4,600
416 W Congress, Tucson	0	0	0	0	1,800	0	0	1,800	1,800	0	0	1,800
Subtotal - Board of Equalization	\$19,800	\$0	\$0	\$19,800	\$26,200	\$0	\$0	\$26,200	\$6,400	\$0	\$0	\$6,400
Executive Clemency, Board of												
1645 W Jefferson	86,200	0	0	86,200	105,900	0	0	105,900	19,700	0	0	19,700
Financial Institutions, Department of												
2910 N 44th Street	166,000	32,400	0	198,400	0	0	0	0	(166,000)	(32,400)	0	(198,400)
Funeral Directors & Embalmers, State Board of												
1400 W Washington	0	15,000	0	15,000	0	0	0	0	0	(15,000)	0	(15,000)
1740 W Adams	0	0	0	0	0	14,100	0	14,100	0	14,100	0	14,100
Subtotal - Funeral Board	\$0	\$15,000	\$0	\$15,000	\$0	\$14,100	\$0	\$14,100	\$0	(\$900)	\$0	(\$900)
Gaming, Department of												
400 W Congress, Tucson	0	14,000	0	14,000	0	17,300	0	17,300	0	3,300	0	3,300

	Fiscal Year 2018 Appropriations Report				Fiscal Year 2019 Appropriations Report				Difference FY 2019 - FY 2018			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	5,200	0	5,200	0	0	0	0	0	(5,200)	0	(5,200)
1740 W Adams	0	0	0	0	0	7,400	0	7,400	0	7,400	0	7,400
Subtotal - Board of Dispensing Opticians	\$0	\$5,200	\$0	\$5,200	\$0	\$7,400	\$0	\$7,400	\$0	\$2,200	\$0	\$2,200
Optometry, State Board of												
1400 W Washington	0	9,000	0	9,000	0	0	0	0	0	(9,000)	0	(9,000)
1740 W Adams	0	0	0	0	0	9,100	0	9,100	0	9,100	0	9,100
Subtotal - Optometry Board	\$0	\$9,000	\$0	\$9,000	\$0	\$9,100	\$0	\$9,100	\$0	\$100	\$0	\$100
Osteopathic Examiners in Medicine and Surgery, AZ Board of												
1740 W Adams	0	0	0	0	0	28,100	0	28,100	0	28,100	0	28,100
9500 Doubletree Rd.	0	34,200	0	34,200	0	0	0	0	0	(34,200)	0	(34,200)
Subtotal - Osteopathic Board	\$0	\$34,200	\$0	\$34,200	\$0	\$28,100	\$0	\$28,100	\$0	(\$6,100)	\$0	(\$6,100)
Parks Board, AZ State												
1100 W Washington	0	0	0	0	0	11,600	47,100	58,700	0	11,600	47,100	58,700
Personnel Board									0	0	0	0
1400 W Washington	0	24,700	0	24,700	0	0	0	0	0	(24,700)	0	(24,700)
1740 W Adams	0	0	0	0	0	8,200	0	8,200	0	8,200	0	8,200
Subtotal - Personnel Board	\$0	\$24,700	\$0	\$24,700	\$0	\$8,200	\$0	\$8,200	\$0	(\$16,500)	\$0	(\$16,500)
Pharmacy, AZ State Board of												
1616 W Adams	0	117,800	0	117,800	0	144,800	0	144,800	0	27,000	0	27,000
Physical Therapy, Board of												
1740 W Adams	0	0	0	0	0	16,900	0	16,900	0	16,900	0	16,900
Podiatry Examiners, State Board of												
1400 W Washington	0	4,400	0	4,400	0	0	0	0	0	(4,400)	0	(4,400)
1740 W Adams	0	0	0	0	0	6,400	0	6,400	0	6,400	0	6,400
Subtotal - Podiatry Board	\$0	\$4,400	\$0	\$4,400	\$0	\$6,400	\$0	\$6,400	\$0	\$2,000	\$0	\$2,000
Private Postsecondary Education, State Board for												
1400 W Washington	0	13,600	3,300	16,900	0	0	0	0	0	(13,600)	(3,300)	(16,900)
1740 W Adams	0	0	0	0	0	19,300	4,800	24,100	0	19,300	4,800	24,100
Subtotal - Private Postsecondary Education Board	\$0	\$13,600	\$3,300	\$16,900	\$0	\$19,300	\$4,800	\$24,100	\$0	\$5,700	\$1,500	\$7,200
Psychologist Examiners, State Board of												
1400 W Washington	0	20,500	0	20,500	0	0	0	0	0	(20,500)	0	(20,500)
1740 W Adams	0	0	0	0	0	16,300	0	16,300	0	16,300	0	16,300
Subtotal - Psychologist Examiners Board	\$0	\$20,500	\$0	\$20,500	\$0	\$16,300	\$0	\$16,300	\$0	(\$4,200)	\$0	(\$4,200)
Public Safety, Department of												
14 N 18th Avenue	20,100	5,300	5,600	31,000	24,700	6,500	6,900	38,100	4,600	1,200	1,300	7,100
1700 W Washington	50,600	13,200	13,900	77,700	60,800	15,900	16,700	93,400	10,200	2,700	2,800	15,700
400 W Congress, Tucson	10,900	2,800	2,900	16,600	13,400	3,400	3,600	20,400	2,500	600	700	3,800
Subtotal - Department of Public Safety	\$81,600	\$21,300	\$22,400	\$125,300	\$98,900	\$25,800	\$27,200	\$151,900	\$17,300	\$4,500	\$4,800	\$26,600
Real Estate Department, State												
2910 N 44th Street	202,500	0	0	202,500	0	0	0	0	(202,500)	0	0	(202,500)
Respiratory Care Examiners, Board of												
1400 W Washington	0	19,800	0	19,800	0	0	0	0	0	(19,800)	0	(19,800)
1740 W Adams	0	0	0	0	0	11,900	0	11,900	0	11,900	0	11,900
Subtotal - Respiratory Care Board	\$0	\$19,800	\$0	\$19,800	\$0	\$11,900	\$0	\$11,900	\$0	(\$7,900)	\$0	(\$7,900)
Revenue, Department of												
402 W Congress, Tucson	116,900	59,500	0	176,400	144,700	73,600	0	218,300	27,800	14,100	0	41,900
1600 W Monroe	1,501,000	773,100	0	2,274,100	1,845,000	950,400	0	2,795,400	344,000	177,300	0	521,300
Subtotal - Department of Revenue	\$1,617,900	\$832,600	\$0	\$2,450,500	\$1,989,700	\$1,024,000	\$0	\$3,013,700	\$371,800	\$191,400	\$0	\$563,200
Rio Nuevo Board												
400 W Congress, Tucson	0	0	11,200	11,200	0	0	13,800	13,800	0	0	2,600	2,600
School Facilities Board												
1700 W Washington	77,100	0	31,600	108,700	94,800	0	38,900	133,700	17,700	0	7,300	25,000
Secretary of State - Dept of State												
1700 W Washington	318,600	0	0	318,600	452,300	0	0	452,300	133,700	0	0	133,700
400 W Congress, Tucson	6,000	0	0	6,000	7,400	0	0	7,400	1,400	0	0	1,400
Records Management Addition	303,300	0	0	303,300	371,400	0	0	371,400	68,100	0	0	68,100
Polly Rosenbaum Building	1,592,900	0	0	1,592,900	1,958,300	0	0	1,958,300	365,400	0	0	365,400
Subtotal - Secretary of State - Dept of State	\$2,220,800	\$0	\$0	\$2,220,800	\$2,789,400	\$0	\$0	\$2,789,400	\$568,600	\$0	\$0	\$568,600
Transportation, Department of												
1275 W Washington 3/	0	127,800	0	127,800	0	0	0	0	0	(127,800)	0	(127,800)
Treasurer, State												
1700 W Washington	0	135,800	0	135,800	0	173,700	0	173,700	0	37,900	0	37,900
Tribal Relations, Governor's Office on												
1700 W Washington	13,200	0	0	13,200	16,200	0	0	16,200	3,000	0	0	3,000

	Fiscal Year 2018 Appropriations Report				Fiscal Year 2019 Appropriations Report				Difference FY 2019 - FY 2018			
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Veterinary Medical Examining Board, AZ State												
9500 Doubletree Rd.	0	25,300	0	25,300	0	0	0	0	0	(25,300)	0	(25,300)
1740 W Adams	0	0	0	0	0	29,700	0	29,700	0	29,700	0	29,700
Subtotal -Veterinary Board	\$0	\$25,300	\$0	\$25,300	\$0	\$29,700	\$0	\$29,700	\$0	\$4,400	\$0	\$4,400
Water Resources, Department of												
1802 W Jackson	24,900	0	0	24,900	30,400	0	0	30,400	5,500	0	0	5,500
GRAND TOTAL	\$16,432,800	\$8,494,200	\$3,012,100	\$27,939,100	\$18,187,200	\$8,876,500	\$3,134,400	\$30,198,100	\$1,754,400	\$382,300	\$122,300	\$2,259,000

1/ Reflects the FY 2019 rental rates enacted by Laws 2018, Chapter 279, Section 39, with an office square footage rental rate of \$16.08 and storage square footage rental rate of \$5.79.

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.

Capital Outlay

Arizona Department of Transportation Building System

FY 2019
APPROVED

BUILDING RENEWAL

ADOT Building Renewal ^{1/2/3/} 5,492,000
SUBTOTAL 5,492,000

INDIVIDUAL PROJECTS ^{4/5/}

Airport Planning and Development ^{6/7/} 18,798,500
Kingman Materials Testing Lab 2,250,000
Keams Canyon Maintenance Yard Truck Barn/Office 1,790,000
Statewide Spreader Rack Bays Projects 1,720,000
Statewide Highway Construction ^{8/8/} 363,017,000
SUBTOTAL 387,575,500

TOTAL - ALL PROJECTS ^{9/10/11/12/} 393,067,500

FUND SOURCES

Other Appropriated Funds

State Aviation Fund 19,040,500
State Highway Fund 374,027,000
SUBTOTAL - Other Appropriated Funds 393,067,500
SUBTOTAL - Appropriated Funds 393,067,500

Other Non-Appropriated Funds 437,420,000
Federal Funds 914,274,000
TOTAL - ALL SOURCES 1,744,761,500

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 2019 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 2019 that are unexpended on June 30, 2020 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- ^{3/} On or before January 31, 2019 and July 31, 2019, the Department of Transportation 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)
- ^{4/} 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)
- ^{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/} 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)
- ^{7/} The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 to plan, construct, develop and improve state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund that exceed 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)
- ^{8/} The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 to plan and construct 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, to acquire rights-of-way, and to provide for 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 that exceed 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)

Unless otherwise specified, funding for capital projects is appropriated by Laws 2018, Chapter 277 (FY 2019 Capital Outlay Bill).

Building Renewal

Building Renewal

The budget includes \$5,492,000 in FY 2019 for Building Renewal within ADOT's Building System. This amount consists of \$5,250,000 from the State Highway Fund (SHF) and \$242,000 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 40.6% funding of the revised highways building renewal formula and 93.5% funding of the aviation building renewal formula. A footnote in the FY 2019 Capital Outlay Bill requires ADOT to biannually report on the status of all building renewal projects.

Individual Projects

Airport Planning and Development

The budget includes \$18,798,500 from the State Aviation Fund (SAF) in FY 2019 for ADOT's airport construction program. Fund revenues are generated from the jet fuel tax and Grand Canyon Airport operational revenues. A footnote in the FY 2019 Capital Outlay Bill appropriates any additional monies in SAF above the appropriation to ADOT for aviation construction. After implementing additional ADOT operating and capital project funding and statewide adjustments, \$18,776,600 of net SAF monies will be available for aviation construction in FY 2019 rather than \$18,798,500.

Kingman Materials Testing Lab

The budget includes \$2,250,000 from SHF in FY 2019 for replacing the materials testing lab in Kingman. To meet the federal requirement that each state maintain a quality assurance program for highway materials, ADOT operates 9 regional materials testing labs throughout the state. The current lab is a repurposed engineered steel building lacking appropriate space and insulation, resulting in inefficient energy usage. The department proposes constructing a new 4,000 square foot lab including adequate space for testing equipment, separation between testing sites and office sites, restrooms, showers, storage, office areas and a meeting/training room.

Keams Canyon Maintenance Yard Truck Barn and Office

The budget includes \$1,790,000 from SHF in FY 2019 for replacing Keams Canyon Maintenance Yard facilities. The department's highway maintenance organizations use maintenance yards as their base of operations for maintaining roads, guardrails and drainage structures. The existing yard consists of a 3-bay truck barn, crew room and conference room, each in distinct structures. The department plans to build a 4,800 square foot 4-bay truck barn with an attached office, conference room and restroom/locker room, all in one building. The larger truck barn will accommodate all sizes of snow removal equipment, as the current existing barn's size requires larger equipment to be left outside.

Statewide Spreader Rack Bays Projects

The budget includes \$1,720,000 from SHF in FY 2019 for the replacement of 14 and repair of 17 spreader rack bays at 11 locations statewide. ADOT uses snowplows to remove snow and ice from state highways. Attached to those snowplows are water tanks and deicing salt spreader boxes weighing hundreds of pounds. To safely connect the equipment to the snowplow, the department uses spreader racks for mechanized loading and

- 9/ On or before November 1, 2018, the Department of Transportation shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting 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)
- 10/ On or before November 1, 2018, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2020 and the estimated debt service payment amount for each of FY 2020, FY 2021, FY 2022 and FY 2023 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 bonds, 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 2018 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 11/ On or before November 1, 2018, the Department of Transportation shall report capital outlay information for FY 2018, FY 2019 and FY 2020 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 2018 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 12/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee-Related Expenditures of state employees, excluding any services provided as part of the Inmate Construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)

unloading. Each rack is made up of 1 or more bay, with each bay capable of accommodating one snowplow at a time. The department has identified 8 existing racks (made up of 14 bays) as unsalvageable and in need of total replacement and 3 racks (made up of 17 bays) as structurally adequate but in need of stabilizing repairs.

Statewide Highway Construction

The budget includes \$363,017,000 from SHF in FY 2019 for controlled access, debt service on bonds, and new construction. Only a small portion of the state's total \$1,970,200,000 highway construction funding is appropriated. Other monies available for highway construction include beginning balances and bond revenues from SHF, Federal Funds, the Maricopa Regional Area Road Fund (MRARF), and HURF for controlled access roads. (See the Total Highway Construction Funding discussion and Table 5 in Other Issues for additional information.) A footnote in the FY 2019 Capital Outlay Bill appropriates any additional monies in SHF above the appropriation to ADOT for highway construction.

Controlled Access Highways

The budget includes an estimated urban freeway controlled access funding level of \$103,833,000 from SHF in FY 2019. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service

The budget includes \$144,232,000 from SHF in FY 2019 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,120,318,000 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2019 debt service payments. (Please see Table 5 for more information on debt service.)

New Construction

The budget includes \$114,952,000 from SHF in FY 2019 for highway construction. Expenditure of highway construction funding is determined by the State Transportation Board, which develops a 5-year plan. 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 additional ADOT operating and capital project funding and statewide adjustments, \$75,772,000 of net SHF monies will be available for statewide highway construction in FY 2019 rather than \$114,952,000. (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 ADOT operating and capital issues and statewide adjustments, which reduces the level of construction funding.

Table 1	
State Highway Fund FY 2019 Highway Construction & Debt Service	
	<u>Capital Outlay Bill</u>
Controlled Access	\$ 103,833,000
Debt Service	144,232,000
Highway Construction	<u>114,952,000 ^{1/}</u>
Total	\$363,017,000
^{1/} Adjusted to \$75,772,000 for State Highway Fund operating issues, capital issues, and statewide adjustments.	

As noted in the HURF distribution table (please see Table 6), an additional amount of \$430,504,000 from unspent FY 2018 State Highway Fund monies will also be available in FY 2019. The Statewide Transportation Acceleration Account (STAN) is estimated to have a depleted balance.

Local HURF Distribution

The budget eliminates a one-time appropriation of \$30,000,000 from the Highway Expansion and Extension Loan Program (HELP) Fund in FY 2019 for local highway construction due to the creation of the Highway Safety Fee. (Please see the Other Issues section in the Department of Public Safety agency narrative for more information.)

Other Issues

Additional Legislation

Amendment of FY 2017 I-10 Projects Appropriation

Laws 2016, Chapter 126 (FY 2017 Capital Outlay Bill) included \$30,000,000 from the General Fund in FY 2017 for I-10 widening projects. The FY 2019 budget amends that appropriation to change the funding source to \$17,246,500 from the General Fund and \$12,753,500 from the State Highway Fund. (Please see the ADOT Operating Budget section for more information.)

Amendment of FY 2020 Direct HURF Allocation

The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283) amended the FY 2018 Revenue BRB (Laws 2017, Chapter 312) to decrease the direct allocation from the Highway User Revenue Fund to local governments in FY 2020 from \$60 million to \$30 million. This adjustment was due to the creation of the Highway Safety Fee. (Please see the Other Issues section in the Department of Public Safety agency narrative for more information.)

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 \$1.1 billion in FY 2017 to \$1.4 billion in FY 2018 and level at \$1.4 billion in FY 2019. The increase from FY 2017 to FY 2018 is mostly due to the South Mountain Freeway construction schedule. Scheduled for completion in late FY 2019, the project will connect the East Valley and West Valley. The freeway will have 4 segments, all of which are under construction, or scheduled to begin construction by the beginning of FY 2019.

Further background information regarding the funds is contained in the ADOT Summary of Funds in the ADOT operating section of the *FY 2019 Baseline Book*. The ADOT operating budget section does not include the non-appropriated capital expenditures as those only appear in Table 2.

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Aviation Federal Funds	\$ 4,090	\$ 1,755	\$ 906
Federal Grants	<u>789,477</u>	<u>939,684</u>	<u>913,368</u>
Subtotal - Federal Funds	\$ 793,567	\$ 941,439	\$ 914,274
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Local Agency Deposits Fund	14,470	10,000	10,000
Maricopa Regional Area Road Fund	251,000	447,302	426,420
Subtotal - Other Non- Appropriated Funds	\$ 266,470	\$ 458,302	\$ 437,420
Total	\$1,060,037	\$1,399,741	\$1,351,694

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 16, 2017 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 \$1,113,688,000 for FY 2019. (Please see Table 3 for additional details.)

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2019 budget

appropriates \$363,017,000 for highway construction, including \$114,952,000 of net SHF monies for statewide highway construction, prior to other adjustments as described above.

Table 5 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 2017 through FY 2019 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 2019 by category of construction. Table 5 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

For FY 2017, Table 5 shows that total cash highway construction expenditures were \$1.1 billion while \$273.9 million was spent on debt service. In FY 2018, total estimated cash highway construction expenditures are \$1.4 billion with total debt service of \$255.1 million. In FY 2019, total estimated cash highway construction expenditures are \$1.7 billion with total debt service of \$302.0 million.

The major sources of highway construction funding are SHF, Federal Aid, the half-cent sales tax in Maricopa County (MRARF), bond proceeds, and the Local Agency Deposits Fund. The Local Agency Deposits Fund receives monies from the federal government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Table 5 does not include highway maintenance spending of \$132.7 million in FY 2017, \$147.1 million in FY 2018, and \$163.4 million in FY 2019. Of the \$302.0 million total FY 2019 debt service amount in Table 5, only \$144.2 million is appropriated.

Table 3
State Highway Fund
Highway Construction Projects Beginning in FY 2019
(\$ in Thousands)

	FY 2019 ^{1/}
Construction	\$122,741
Urban Controlled Access ^{2/}	587,888
Pavement Preservation Maintenance	325,243
Other ^{3/}	<u>77,816</u>
Total	\$1,113,688

^{1/} Data from ADOT's 2018-2022 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.

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 2017 through FY 2019. The line in *Table 6* showing net SHF Available for Statewide Highway Construction, which totals \$75,772,000 (originally estimated to be \$114,952,000 in the JLBC Baseline and Capital Outlay Bill) for FY 2019, does not include Maricopa County and Pima County Controlled Access Funds, Bond Funds, Federal Funds, and Miscellaneous Funds available for construction. This line represents the amount that is available from the discretionary SHF to fund the State Transportation Board’s 5-Year Plan.

Total FY 2017 HURF collections of \$1,405,448,000 were 3.6% above FY 2016 collections. As of April 2018, HURF year-to-date collections were 2.7% higher than the prior year collections.

The gas tax is the largest source of HURF collections, accounting for 36% of HURF revenue in FY 2017. In concert with the national trend, gas prices are increasing with the average price per gallon of regular gasoline in Arizona at \$2.85 in April 2018, or 55 cents per gallon higher than a year ago, according to the American Automobile Association. The US Energy Information Administration (EIA) indicates that rising crude oil prices are a main contributor to recent increases in gas prices. The EIA projects prices to keep rising for a short time and stabilize for the remainder of calendar year 2018. Increased gas prices may put downward pressure on HURF collections, as consumers may respond by purchasing less gas.

VLT comprises the second largest source of HURF collections at 30%, a percentage which has been increasing in recent years. From FY 2013 to FY 2017, the gas tax share of total collections has decreased by (1.6)% while VLT’s share has increased by 3.0%. In FY 2018, vehicle license tax revenue growth is outpacing that of other categories compared to FY 2017 year-to-date.

ADOT forecasts HURF collections 10 years out each summer using a model based on the state’s nominal personal income, population, non-farm employment, fleet fuel efficiency and nominal gas price.

Table 4

Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	<u>42.8%</u>
Total	100.0%

^{1/} A.R.S. § 28-6538 distributes 50.5% of HURF monies to SHF, with 12.6% of the monies distributed to SHF being allocated to controlled access highways in Maricopa and Pima Counties. The State Transportation Board adds 2.6% by Board Policy to the statutory 12.6%, making a total of 15.2% of SHF monies set aside for controlled access highways (15.2% of 50.5% = 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 2017</u> <u>Actual</u>	<u>FY 2018</u> <u>Estimate</u>	<u>FY 2019</u> <u>Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 121.4	\$ 90.8	\$ 100.8
HURF - MAG Debt Service	34.5	39.6	43.4
MAG/PAG 15.2% Controlled Access - Construction Expenditures	9.7	58.2	258.2
Net SHF Funds Available for Statewide Highway Construction Expenditures	49.8	88.4	75.8
Total SHF - Appropriated	\$ 215.4	\$ 277.0	\$ 478.2
Non-Appropriated			
SHF Highway Construction ^{1/}	\$ 0.4	\$ 0.6	\$ -
Total SHF - Non-Appropriated	\$ 0.4	\$ 0.6	\$ -
Total SHF Highway Construction Expenditures	\$ 215.8	\$ 277.6	\$ 478.2
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 789.5	\$ 939.7	\$ 913.3
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 107.5	\$ 261.8	\$ 225.7
MRARF Debt Service	100.4	99.2	133.0
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 207.9	\$ 361.0	\$ 358.7
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 140.8	\$ 7.0	\$ -
MRARF - Highway Construction Expenditures	0.0	-	200.0
GAN - Highway Construction Expenditures	0.0	65.0	10.0
Total Bond Proceeds Highway Construction Expenditures	\$ 140.8	\$ 72.0	\$ 210.0
Local Agency Deposits Fund			
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	14.5	10.0	10.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 14.5	\$ 10.0	\$ 10.0
Total Highway Construction Expenditures	\$ 1,368.5	\$ 1,660.3	\$ 1,970.2
Total Debt Service			
SHF	\$ 155.9	\$ 130.4	\$ 144.2
Federal Aid	17.6	25.5	24.8
MRARF	100.4	99.2	133.0
Total Debt Service	\$ 273.9	\$ 255.1	\$ 302.0 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 59.9	\$ 147.2	\$ 334.0
Federal Aid	771.9	914.2	888.5
MRARF	107.5	261.8	225.7
Bond Proceeds	140.8	72.0	210.0
Local Agency Deposits Fund	14.5	10.0	10.0
Total Cash Highway Construction Expenditures	\$ 1,094.6	\$ 1,405.2	\$ 1,668.2
Total Highway Construction Expenditures	\$ 1,368.5	\$ 1,660.3	\$ 1,970.2

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$144,230,000 for HURF bonds (\$100,840,000 for statewide program and \$43,390,000 MAG program); \$24,838,000 for Grant Anticipation Notes; and \$133,000,000 for MRARF bonds.

Table 6

Highway User Revenue Fund (HURF) Distribution
(\$ in Thousands)

	FY 2017	FY 2018	FY 2019
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Total HURF Collections	\$1,405,448	\$1,451,300	\$1,505,994
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	650	656	654
Dept. of Public Safety Transfer from HURF ^{3/}	96,006	99,399	15,509
Reversions from DPS	(2,026)	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	<u>\$1,279,818</u>	<u>\$1,320,245</u>	<u>\$1,458,831</u>
Less: Cities ^{5/}	390,344	402,675	444,943
Counties ^{5/}	243,165	250,847	277,178
VLT Transfer to General Fund ^{6/}	0	0	42,365
VLT Transfer to Parity Compensation Fund ^{7/}	3,162	3,420	3,634
VLT Transfer to General Fund (5-Year VLT) ^{8/}	1,647	1,800	1,800
VLT Transfer to General Fund (Abandoned Vehicle) ^{9/}	5,505	5,300	5,800
Controlled Access ^{10/}	<u>96,671</u>	<u>99,743</u>	<u>103,833</u>
Net SHF (Discretionary)	<u>\$ 539,324</u>	<u>\$ 556,460</u>	<u>\$ 579,278</u>
Plus: Other Income ^{11/}	65,994	74,600	79,277
Less: Operating Budget ^{12/}	335,181	361,185	384,073
Dept of Public Safety Transfer from Highway Fund ^{13/}	7,302	8,714	8,169
Capital Outlay	15,099	5,340	6,560
Local Assistance ^{14/}	3,185	0	0
Building Renewal	4,000	4,500	5,250
Motor Vehicle Third Party Payments ^{15/}	29,659	31,900	33,899
Miscellaneous	5,155	600	600
Debt Service ^{16/}	<u>155,935</u>	<u>130,385</u>	<u>144,232</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{17/}	<u>\$ 49,802</u>	<u>\$ 88,436</u>	<u>\$ 75,772</u>
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	379,171	420,255	430,504
STAN Account Beginning Balance	<u>991</u>	<u>614</u>	<u>0</u>
Total SHF Available for Statewide Highway Construction	<u>\$ 429,964</u>	<u>\$ 509,305</u>	<u>\$ 506,276</u>

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2018 amount of \$656,100 includes \$6,400 for statewide adjustments. The FY 2019 amount of \$653,600 includes \$3,900 for statewide adjustments.

^{3/} The FY 2018 amount of \$99,398,700 includes no funding for statewide adjustments. The FY 2019 amount of \$15,508,700 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 local governments 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. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) requires, as session law, \$30 million of HURF revenues in FY 2018 to be allocated to local governments in the same manner. The FY 2018 Revenue BRB (Laws 2017, Chapter 312) requires, as session law, \$30 million in FY 2019 and \$60 million in FY 2020 to be allocated to local governments in the same manner. The FY 2019 Revenue BRB (Laws 2018, Chapter 283) modified Laws 2017, Chapter 312 to allocate \$30 million in FY 2020 instead of \$60 million.

^{5/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{6/} The FY 2019 General Appropriation Act transfers \$42,364,500 from the SHF share of VLT to the state General Fund.

^{7/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{8/} 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.

^{9/} 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.

^{10/} 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.

^{11/} Includes transfers from the MAG 12.6% subaccount to the SHF for debt service on HURF bonds, miscellaneous receipts, rental income, sale of capital assets, underground storage tank deposits, investment income, grants from Governor's Office of Highway Safety, retained MVD fees, oversize permits and abandoned vehicle fees.

^{12/} The FY 2019 amount of \$384,073,200 includes \$2,119,000 for statewide adjustments.

^{13/} The FY 2018 amount of amount of \$8,713,500 includes \$1,132,600 for statewide adjustments. The FY 2019 amount of \$8,169,100 includes \$455,200 for statewide adjustments.

^{14/} 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. (FY 2018 Capital Outlay Bill footnote)

^{15/} Statutory payments to third parties from VLT collected by third parties.

^{16/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{17/} 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 2019
APPROVED

BUILDING RENEWAL

Arizona Board of Regents

TOTAL - ALL PROJECTS

0

0^{1/2/3/4/}

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 2019 General Appropriation Act appropriates \$8,000,000 to the universities from the General Fund in FY 2019 for one-time operating expenditures or capital improvements. Of this amount, \$4,245,000 is appropriated to ASU, \$1,590,200 is appropriated to NAU, and \$2,164,800 is appropriated to UA.

A General Appropriation Act footnote requires JCCR 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 2019, the universities' outstanding principal balances for bonds and

^{1/} The sum of \$8,000,000 is appropriated from the state General Fund in FY 2019 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 \$4,245,000, 2) Northern Arizona University \$1,590,200, 3) University of Arizona \$2,164,800. On or before August 1, 2018, each university shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in subsection A of this section 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/} A.R.S. § 15-1670 appropriates \$33,625,900 to the universities from the General Fund in FY 2019 to finance lease-purchase payments for research infrastructure projects

^{3/} A.R.S. § 15-1671 appropriates \$27,000,000 to the universities from the General Fund in FY 2019 for capital infrastructure projects.

^{4/} The one-time appropriation for operating expenditure or capital improvement projects and the appropriations in A.R.S. § 15-1670 and A.R.S. § 15-1671 have been included in the universities' individual agency sections.

lease-purchase agreements will total \$3,393,279,000. This debt would be held by the 3 universities as follows:

ASU (all campuses)	\$1,639,580,000
NAU	470,455,000
UA (all campuses)	<u>1,283,244,000</u>
Total	\$3,393,279,000

ABOR estimates that the universities' total debt service payments for bonds and lease-purchase agreements in FY 2019 will be \$316,353,900. The debt service payments made by each of the universities would be as follows:

ASU (all campuses)	\$145,394,200
NAU	41,005,500
UA (all campuses)	<u>129,954,200</u>
Total	\$316,353,900

Of the total FY 2019 debt service payments, \$39,907,400 would be paid by Lottery monies, \$33,625,900 would be paid by the General Fund for 2003 research infrastructure projects, and \$1,309,800 would be paid by the General Fund for 2017 Capital Infrastructure Funding projects. *(Please see the Lease-Purchase Projects, Bonding, and 2017 Capital Infrastructure Funding sections 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 \$3,393,279,000 in FY 2019 university debt, ABOR is projected to have \$568,044,000 in outstanding lease-purchase balances, with an overall debt service payment of \$83,094,800. The FY 2019 General Fund

share of the debt service is \$33,625,900. 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. *(Please see the 2003 Research Infrastructure Refinancing section in the ABOR narrative for more information.)*

Bonding

As part of the \$3,393,279,000 in FY 2019 university debt, ABOR is projected to have \$2,825,235,000 in outstanding bond balances, including both system revenue and lottery bonds. The projected debt service is \$233,259,100.

University Lottery Bonds

One component of the \$2.8 billion balance is university lottery revenue (Stimulus Plan for Economic and 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.

Table 1

University Lottery Bond Issuances

Purpose	University	Statutory Distribution	Reviewed Issuance	Actual Issuance	Remaining Authority	Planned Issuance
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 ^{1/}</u>	<u>134,835,000</u>	<u>1,165,000</u>	<u>0</u>
<i>Subtotal</i>		<i>\$408,000,000</i>	<i>\$418,718,000</i>	<i>\$395,170,000</i>	<i>\$ 12,830,000</i>	<i>0</i>
TOTAL		\$800,000,000	\$710,963,000	\$668,710,000	\$131,290,000	\$ 0

^{1/} Actual issuances will not exceed statutory distribution

Table 2

University Lottery Bonding Projects ^{1/}

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Maximum Lottery Revenue to UCI Fund ^{2/ 3/}	\$ 46,285,600	\$ 60,644,800	\$ 68,103,300	\$ 79,605,300	\$ 89,555,600
Total Debt Service	\$ 49,908,700	\$ 49,894,700	\$ 49,884,200	\$ 49,877,600	\$ 49,851,800
Total Lottery Share at 80% ^{4/5/}	\$ 39,927,000	\$ 39,915,700	\$ 39,907,400	\$ 39,902,100	\$ 39,881,400
Projected University Cost at 20% ^{4/5/}	\$ 9,981,700	\$ 9,979,000	\$ 9,976,800	\$ 9,975,500	\$ 9,970,400
Lottery Funds Remaining for General Fund - Part 3 ^{3/}	\$ 6,358,600	\$ 20,729,100	\$ 28,195,900	\$ 39,703,200	\$ 49,674,200

- ^{1/} Represents JCCR reviewed projects and issuances. The debt service amounts displayed above reflect estimates made in October 2017 based on available information from ABOR.
- ^{2/} Revenue estimates are based on a 7.1% increase in annual Lottery revenues in FY 2018, a 4.2% increase in FY 2019 and 5.0% annual increases 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/} Lottery revenues that remain after payment of the 80% share of university debt service are transferred to the General Fund.
- ^{4/} Due to savings from the UA Health Sciences Education Building shell space coming in under budget, a portion of the project's bond proceeds are available to pay down debt service in FY 2018 and FY 2019. As a result, the reported FY 2018 and FY 2019 total debt service costs will be reduced by \$(376,600) and \$(86,900), respectively. ABOR would allocate 80% of the savings to the required lottery-funded payment, and 20% to the university funded share.
- ^{5/} The sum of Total Lottery Share at 80% and Projected University Cost at 20% represents the total debt service for the bond issuances. (See the *Capital Debt and Lease-Purchase section for more information.*)

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 \$49,884,200 in FY 2019, 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 University Capital Improvement (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 \$68,103,300 in FY 2019. This estimate solely reflects the total available after other lottery distributions and does not reflect planned usage. Since the maximum 80% lottery portion of the debt service is assumed to be \$39,907,400 in FY 2019, the budget assumes the remaining \$28,195,900 will be deposited to the General Fund. The 20% share of the university payment, which will be paid for with university system revenues, is projected to be \$9,976,800 in FY 2019.

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 the total combined debt service 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 2019 enacted budget revenue forecast and ABOR debt service estimates from October 2017.

2017 University Capital Infrastructure Funding

Laws 2017, Chapter 328 established 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.

Table 3

2017 University Capital Infrastructure Funding (CIF) Approved and Proposed Projects ^{1/}

Project	Principal	FY 2019 Debt Service ^{2/}	Est. JCCR Review	Financing Through
Durham Language & Literature Building Renovation	\$45,000,000	--	FY 2019	--
Hayden Library Renovation ^{3/}	35,000,000	\$864,600	Approved	FY 2043
Health Solutions Innovation Center (Mayo)	80,000,000	--	FY 2019	--
Interdisciplinary Science/Technology Building (ISTB) 7	<u>175,000,000</u>	--	FY 2019	--
ASU Subtotal ^{4/}	\$335,000,000			
Multi-Discipline STEM Academic/Research Building	\$139,000,000	--	FY 2019	--
Science Annex Renovation ^{5/}	<u>17,400,000</u>	\$0	Reviewed	N/A
NAU Subtotal	\$156,400,000			
Animal/Biomedical Sciences Building 90 Renovation	\$ 18,000,000	\$1,755,000	Approved	FY 2043
Interdisciplinary Research Innovation Building (IRIB) 1	100,000,000	--	FY 2019	--
Interdisciplinary Research Innovation Building (IRIB) 2	100,000,000	--	FY 2019	--
Deferred Maintenance	<u>166,000,000</u>	--	FY 2019	--
UA Subtotal	\$384,000,000			
Universities Total ^{4/}	\$875,400,000			

^{1/} Includes projects listed in the universities' Capital Development Plans (CDP) and Capital Improvement Plans (CIP) as approved by ABOR for FY 2018 and FY 2019.

^{2/} The General Fund and other university resources will split the debt service payments evenly.

^{3/} CIF monies will pay the debt service on \$35 million of the total \$90 million of bonds issued for the Hayden Library Renovation project.

^{4/} ASU's originally proposed project list for the CIF funds also includes \$130 million for a Biodesign Expansion Facility, \$50 million for a Downtown Phoenix Biomedical Building, and \$30 million for building renewal. ASU's CIP includes a Biomedical Research Laboratory and building renovations among its proposed FY 2020 projects, but does not identify funding sources or amounts.

^{5/} NAU determined that it would pay for the Science Annex Renovation using cash, rather than debt-financing.

Under the law, each university's General Fund appropriation are deposited into a newly-created capital infrastructure fund (CIF). Each university must 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 are 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.

Table 3 shows the projects that the universities have included in their Capital Development and Capital Improvement Plans for FY 2018 and FY 2019 that are scheduled to be funded by CIF monies. The list of projects is subject to revisions or additions. As of June 30, 2018, the universities have received a favorable JCCR review for 1 CIF funded project: the \$17,400,000 renovation of the Science Annex Building at NAU, which is being funded entirely with cash, rather than debt-financing. The

universities have also received JCCR approval for 2 CIF funded projects: the \$18,000,000 renovation of the UA Animal and Comparative Biomedical Sciences Building 90, and \$35,000,000 of the total renovation costs for ASU's Hayden Library. Hayden Library and Building 90 are the only CIF funded projects incorporated into ABOR's estimates of systemwide FY 2019 debt and debt service totals. The debt service payments for all planned CIF funded projects, however, are included in the universities' projected future debt ratios. *(Please see the University Debt Ratio Policy section.)*

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 previously, the university lottery bonds (otherwise known as SPEED) are exempt from the debt ratio calculations.

The universities' FY 2017 Debt Capacity Reports project expected debt ratios through FY 2026. 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: 5.1% (5.6% with SPEED) in FY 2021
- NAU: 6.4% (8.0% with SPEED) in FY 2020
- UA: 6.0% (7.1% with SPEED) in FY 2020

These ratios incorporate the debt service impact of planned construction projects, including projects approved in the universities' Capital Development and Capital Improvement plans that will be financed by the 2017 University Capital Infrastructure Funding program.

The universities estimate that they have the capacity to issue \$2.0 billion in additional debt beyond the planned projects based on these debt service ratios.

Additional Legislation

Capital Projects Reporting

The FY 2019 Higher Education Budget Reconciliation Bill (Laws 2018, Chapter 281) amends A.R.S. § 41-793 to require the universities to annually report on the status of all capital projects that have been reviewed by, approved by, or reported to JCCR that are not yet completed.

Capital Outlay

Debt and Lease-Purchase Financing

FY 2019
APPROVED

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing

84,112,000^{1/ 2/}

TOTAL - ALL PROJECTS

84,112,000

* 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 1.)

FUND SOURCES

General Fund

84,112,000

TOTAL - ALL SOURCES

84,112,000

DESCRIPTION — This section summarizes the state's debt and lease-purchase obligations. This section previously displayed General Fund allocations to the Phoenix Convention Center and the Rio Nuevo Multipurpose Facilities District. These allocations now appear in the Capital Outlay - Local Assistance section.

2010 Leaseback Financing

2010 Leaseback Financing

The budget includes \$84,112,000 from the General Fund in FY 2019 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 2019 is expected to be \$999,750,000. 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.)

A.R.S. § 41-707 requires the Department of Administration to report to the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) by October 1 of each year on any costs associated with the Investment Yield Restriction, including whether the policy has reduced the yield of investments or required the state to pay any associated penalties to the federal government.

In December 2017, ADOA reported that there were no costs associated with meeting the Investment Yield Restriction requirements. ADOA stated the requirements have not reduced the yield of investments and there have been no penalties paid to the federal government.

^{1/} The sum of \$60,102,200 is appropriated from the State General Fund in FY 2019 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 \$24,009,800 is appropriated from the State General Fund in FY 2019 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)

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. Aa2 represents the agency's third highest rating. Using Moody's credit ratings as of January 2017, in comparison to other states, 32 states have a higher rating, 10 states have the same rating, and 7 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. In May 2015, when Arizona's credit rating was increased, its outlook was changed to stable. The credit rating agencies have maintained 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 Certificates of Participation (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 prior to FY 2012.

At the end of FY 2019, the outstanding balance of lease-purchase agreements is expected to be \$2.2 billion. *Table 1* 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.

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 2019 bond payment will be \$37,502,900. This results in the General Fund receiving \$(37,502,900) less in Lottery revenues in FY 2019. However, since this is not a General Fund appropriation, it does not appear in the General Fund Balance and Payment columns in *Table 1*.

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 1 provides information related to the state's current outstanding bonds.

Table 1

Lease-Purchase and Bonding Summary

	Overall Balance	^{1/} GF Balance	Overall FY 19 Payment	^{2/} FY 19 GF Payment	Retirement FY
Lease-Purchase Summary					
<u>ADOA Building System</u>					
2008 A Issuance					
ADC 4000 Prison Beds, Wastewater and DHS Forensic Lab	\$ 17,725,000	\$ 17,725,000	\$ 14,202,500	\$ 14,202,500	FY 28
2010 A/B Issuance					
Sale/Leaseback	\$ 709,215,000	\$ 709,215,000	\$ 84,112,000	\$ 84,112,000	FY 30
2013 A Issuance					
PLTO Refinance - DHS Building	\$ 18,160,000	\$ -	\$ 3,430,500	\$ 2,058,300	FY 29
2013 B Issuance					
Refinance - 2002A Health Lab	\$ 7,395,000	\$ -	\$ 2,032,300	\$ -	FY 23
Refinance - 2004B Prisons	\$ -	\$ -	\$ 3,072,900	\$ 3,072,900	FY 19
2015 Issuance					
Refinance - 2008A ADC and DHS	\$ 107,515,000	\$ 107,515,000	\$ 5,309,900	\$ 5,309,900	FY 28
2015 A Issuance					
PLTO Refinance - Capitol Mall	\$ 42,945,000	\$ 42,945,000	\$ 9,718,700	\$ 2,552,300	FY 28
2016 Issuance					
ADC Kingman Refinance	\$ 87,655,000	\$ 87,655,000	\$ 17,465,400	\$ 17,465,400	FY 25
<i>Subtotal - ADOA</i>	\$ 990,610,000	\$ 965,055,000	\$ 139,344,200	\$ 128,773,300	
<u>School Facilities Board</u>					
New School Construction - FY 2008 - FY 2009	\$ -	\$ -	\$ 44,930,200	\$ 44,930,200	FY 19
Federal Bonds	45,260,000	45,260,000	9,938,100 ^{3/}	9,938,100 ^{3/}	FY 28
2011 Refinance	40,685,000	40,685,000	20,273,300	20,273,300	FY 20
2013 Refinance	4,700,000	4,700,000	9,285,700	9,285,700	FY 20
2014 Refinance	18,030,000	18,030,000	38,394,200	38,394,200	FY 20
2015 Refinance	257,835,000	257,835,000	11,465,800	11,465,800	FY 24
<i>Subtotal - SFB</i>	\$ 366,510,000	\$ 366,510,000	\$ 134,287,300	\$ 134,287,300	
<u>ABOR Building System</u>					
Arizona State University	\$ 268,545,000	\$ 130,340,000	\$ 30,903,600	\$ 13,478,700	FY 39
Northern Arizona University	45,940,000	45,940,000	5,896,200	5,896,200	FY 31
University of Arizona	253,559,000	129,055,000	46,295,000	14,251,000	FY 72
<i>Subtotal - ABOR</i>	\$ 568,044,000	\$ 305,335,000	\$ 83,094,800	\$ 33,625,900	
Phoenix Convention Center ^{4/}	\$ 256,724,900	\$ 256,724,900	\$ 22,996,300	\$ 22,996,300	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,181,888,900	\$ 1,893,624,900	\$ 379,722,600	\$ 319,682,800	
Bonding Summary					
<u>School Facilities Board</u>					
Proposition 301	\$ 62,865,000	\$ -	\$ 64,121,400	\$ -	FY 20
Department of Transportation ^{5/}	\$ 1,442,250,000	\$ -	\$ 169,070,000	\$ -	FY 14 - 38
<u>ABOR Building System</u>					
Arizona State University	\$ 1,210,835,000	\$ -	\$ 101,707,600	\$ -	FY 48
Northern Arizona University	298,125,000	-	24,029,700	-	FY 44
University of Arizona	664,525,000	-	55,018,000	-	FY 48
University Lottery Bond (SPEED)	598,750,000 ^{6/}	-	49,884,200	-	FY 48
University Infrastructure (2017) ^{7/}	53,000,000	-	2,619,600	1,309,800	FY 43
<i>Subtotal - ABOR</i>	\$ 2,825,235,000	\$ -	\$ 233,259,100	\$ 1,309,800	
Lottery Revenue Bond	\$ 290,535,000	\$ -	\$ 37,502,900 ^{8/}	\$ -	FY 29
<i>TOTAL - Bonding</i>	\$ 4,620,885,000	\$ -	\$ 503,953,400	\$ 1,309,800	
TOTAL - Lease-Purchase & Bonding	\$ 6,802,773,900	\$ 1,893,624,900	\$ 883,676,000	\$ 320,992,600	

- 1/ Represents principal balances as of June 30, 2019. 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 19 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 2019 this subsidy is expected to be \$3,976,500 of the \$9,938,100 payment.
- 4/ 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 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.
- 5/ Includes \$1,280,830,000 for Highway User Revenue Fund bonds and \$161,420,000 for Grant Anticipation Notes.
- 6/ Represents outstanding balance as of the end of FY 2019 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.)*
- 7/ Based on estimated calendar year 2018 issuance amount, which includes the \$18,000,000 issuance for the UA Building 90 project and the \$35,000,000 issuance to fund a portion of the ASU Hayden Library renovation. The universities will receive \$27,000,000 from the General Fund in FY 2019 under the 2017 Capital Infrastructure Funding program. Of this amount, \$1,309,800 is expected to be for General Fund debt service.
- 8/ These obligations will be repaid with foregone General Fund revenues.

Capital Outlay
Local Assistance

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
DISTRIBUTIONS			
Phoenix Convention Center	20,449,000	22,499,000	22,996,300 ^{1/}
Rio Nuevo District	13,988,500	14,000,000	14,000,000 ^{2/}
TOTAL - ALL DISTRIBUTIONS	34,437,500	36,499,000	36,996,300
FUND SOURCES			
General Fund	34,437,500	36,499,000	36,996,300
TOTAL - ALL SOURCES	34,437,500	36,499,000	36,996,300

AGENCY DESCRIPTION — The State Treasurer makes distributions to the City of Phoenix to service debt on the Phoenix Convention Center and to the Rio Nuevo Multipurpose Facility District for use in authorized development projects and to service debt issued by the district.

Phoenix Convention Center

The budget includes \$22,996,300 from the General Fund in FY 2019 for state participation in repayment of \$300,000,000 for the expansion of the Phoenix Convention Center. FY 2019 adjustments are as follows:

Distribution Increase

The budget includes an increase of \$497,300 from the General Fund in FY 2019 to increase the distribution to the City of Phoenix pursuant to A.R.S. § 9-602.

Background – In FY 2005, the City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs) to finance expansion of the Phoenix Convention Center. Of that amount, \$300,000,000 will be repaid by the state. The project was completed in January 2009.

There is a statutory debt service schedule for these payments. Under this schedule, the state’s annual contribution is scheduled to gradually increase from \$22,996,300 in FY 2019 to \$29,998,900 by FY 2044.

Statute requires that cumulative payments to the City of Phoenix do not exceed cumulative estimated revenue resulting from the project. (See *Other Issues section for estimated revenues from the project.*)

Rio Nuevo District

The budget includes \$14,000,000 from the General Fund in FY 2019 for distributions to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facilities District. This amount is unchanged from FY 2018.

Although the FY 2018 General Appropriation Act displays a \$10,000,000 estimated distribution in FY 2018, the actual amount distributed to the district will reflect allocations required by A.R.S. § 42-5031. Distributions are now projected to be \$14,000,000 in FY 2018, or \$4,000,000 more than estimated under the FY 2018 enacted budget. The FY 2019 budget adjusts the FY 2018 estimate to reflect the \$14,000,000 projection.

Background – Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. The district, which receives a diversion of state Transaction Privilege Tax (TPT) revenue to finance the development of a multipurpose facility and supporting projects. The district stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

Laws 1999, Chapter 162 allowed 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

^{1/} Pursuant to A.R.S. § 9-602, \$22,996,250 of state General Fund revenue is allocated in FY 2019 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601. (General Appropriation Act footnote)
^{2/} 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 \$14,000,000 in FY 2019. The actual amount of the distribution will be made pursuant to A.R.S. § 42-5031. (General Appropriation Act footnote)

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.

Prior to Laws 2018, Chapter 138, the district was permitted to operate and receive TPT distributions until July 1, 2025, or until the date all authorized debt service payments are completed, whichever date is earlier. Chapter 138 extends this due date to July 1, 2035, or upon the completion of authorized debt service payments, whichever occurs later.

Prior to Chapter 138, the district was authorized to use state TPT distributions to service debt on bonds issued by the district before January 1, 2009. The same authority applied to contractual obligations incurred by the district before January 1, 2009. Chapter 138 extends such authority to bonds issued before January 1, 2025 and contractual obligations incurred before January 1, 2025.

Chapter 138 provides specific requirements with respect to how the district's property must be disposed following its dissolution, including how the proceeds will be distributed. Moreover, for district-owned properties, Chapter 138 requires that any construction project (or other improvement to real property) with a cost of more than \$500,000 be reviewed by JCCR.

In 2008, Rio Nuevo issued \$80,000,000 in bonds to finance development projects in the district. The bonds are secured by a lien on state TPT distributions. The remaining balance owed for the bonds was \$60,290,000 at the end of FY 2017.

Through FY 2017, Rio Nuevo has received a total of \$152,411,800 in TPT distributions from the state. Actual payments to the district increased from \$13,088,800 in FY 2016 to \$13,988,500 in FY 2017. The actual amount distributed in future years will reflect the TPT allocation to the district required by statute. (See Table 1.)

Rio Nuevo district distributions were originally accounted for as a reduction of state TPT revenue. Beginning in FY 2016, these payments are displayed as a state expenditure.

Table 1

State TPT Payments to the Rio Nuevo District

<u>Fiscal Year</u>	<u>Distributions</u>
FY 2017	\$13,988,471
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	<u>5,081,197</u>
Total	\$152,411,821

Other Issues

Net Revenues of Convention Center Project

Statute requires the Auditor General to estimate annually how amounts of General Fund revenues resulting from the Convention Center expansion compare to debt service payments made by the state since the project's calendar year (CY) 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 \$50,376,000 through CY 2016 (see Table 2). As a result, the state has not reduced payments to the City of Phoenix during this time. The cumulative net increase was largely due to the one-time revenue associated with construction in CY 2004 to CY 2008 and the state's low introductory debt service payments. In CY 2016, \$20,647,000 in estimated additional revenues from the project was \$198,000 above the \$20,449,000 in debt payments.

Table 2

Project Revenue and Debt Service Payments
(\$ in Millions)

Year ^{1/}	Gross Revenue	Debt Service	Annual Net Revenues ^{2/}	Cumulative Net Revenues
2016	\$ 20.6	\$ 20.4	\$ 0.2	\$ 50.4
2015	20.5	20.4	0.1	50.2
2014	15.0	20.4	(5.4)	50.1
2013	9.1	20.4	(11.3)	55.5
2012	13.6	5.6	8.0	66.8
2011	15.4	0.0	15.4	58.8
2010	14.7	10.0	4.7	43.4
2009	17.3	5.0	12.3	38.7
2004-2008	26.4	0.0	26.4	26.4

^{1/} Statute requires the Auditor General study to include estimates by calendar year, but specifies the state's debt service obligation by fiscal year. Debt service payments for fiscal years are listed in the calendar year they were made.

^{2/} Represents gross revenue less debt service for each fiscal year.

Source: Auditor General report, *An Economic and Fiscal Impact Analysis Update, Phoenix Convention Center (2017)*

ECONOMIC AND REVENUE FORECAST

GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted FY 2019 budget assumes total net General Fund revenues of \$10.63 billion. This amount is an increase of 6.0% compared to enacted FY 2018 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.

Table 1 below shows projected base revenue amounts and growth rates under the: (1) Executive's April 13 budget revision (when their "20x2020 Plan" was announced), (2) April 11 Finance Advisory Committee (FAC) forecast, and (3) enacted budget forecast. The final (enacted budget) numbers reflect a negotiated agreement between the Executive and the Legislature.

As indicated in the table below, the final budget accepted the Executive's 6.0% growth rate in FY 2018. The FY 2019 growth rate of 4.0% was essentially the midpoint between the April 11 FAC forecast and the April 13 Executive estimates.

Table 1				
Projected Base Revenue Relative to January Baseline ^{1/2/}				
[\$ in Millions]				
	FY 2018	FY 2019	FY 2020	FY 2021
4/13 Executive Difference from Baseline	\$172	\$269	\$333	\$368
4/13 Executive Base Revenue Growth Rate	6.0%	4.4%	4.8%	4.7%
April FAC Difference from Baseline	\$137	\$159	\$154	\$151
April FAC Base Revenue Growth Rate	5.6%	3.7%	4.2%	4.5%
Final (Enacted) Difference from Baseline	\$172	\$224	\$243	\$238
Final (Enacted) Base Revenue Growth Rate	6.0%	4.0%	4.4%	4.4%

^{1/} For more detail on January Baseline projections, see pages 528 and 529 in the *FY 2019 Baseline Book*.

^{2/} The Executive base revenue growth rates may not match their stated rates. The JLBC Staff has adjusted their rates to use a comparable methodology to the April FAC estimates.

The detailed enacted budget revenue forecasts appear at the end of this section. Table 7 compares the enacted FY 2019 forecast to the enacted FY 2018 forecast while Table

8 compares the FY 2021 revenue planning estimates to the FY 2020 estimates.

General Fund Base Revenue Forecast

FY 2018

The original FY 2018 budget enacted in May 2017 was based on total net General Fund revenues of \$9.85 billion. This amount was 0.7% above actual FY 2017 collections.

In the original FY 2018 budget, base revenues were forecasted to be \$10.47 billion in FY 2018, or 4.3% above the projected amount in the prior fiscal year. In January 2018, the JLBC Baseline used the same FY 2018 base revenue growth rate of 4.3%. The JLBC Baseline projection was based on the "4-sector" forecast (see below for more information on the 4-sector process). Despite using the same projected FY 2018 growth rate of 4.3%, the ongoing base revenue in the January Baseline was \$(24.9) million lower than in the May 2017 enacted budget. The reason for this is that the actual FY 2017 base revenue was lower than the estimate used in the May 2017 enacted budget.

In its 2018 Regular Session revisions to the FY 2018 budget, the Legislature adopted the Executive's projected base revenue growth rate of 6.0%. In terms of total revenue, the revised FY 2018 budgeted amount is \$10.03 billion, or 2.4% above FY 2017.

As noted above, the May 2018 enacted budget for FY 2018 was based on the Executive's projected growth rate of 6.0%. By way of comparison, the projected FY 2018 growth rate was 4.3% under the January Baseline and 5.6% under the April 4-sector. In terms of base revenue, the enacted budget was \$172 million above the January Baseline and \$35 million above the April 4-sector forecast. Table 3 below includes additional details with respect to the January and April 2018 4-sector projected growth rates by major revenue categories.

FY 2019

The enacted FY 2019 budget forecasts total net General Fund revenues of \$10.63 billion for FY 2019. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenues are projected to be \$10.92 billion. As noted previously, this amount is based on a negotiated agreement between the Executive and the Legislature. In terms of base revenue, the enacted budget is \$224 million above the January Baseline and \$65 million above the April 4-sector forecast.

Table 2 below summarizes the changing revenue picture in FY 2018 to FY 2021 through the phases of budget

development. The growth rates in the table reflect ongoing base revenues.

Table 2	
Base Revenue Change Assumptions Over Prior Year	
	<u>% Change</u>
<u>FY 2018</u>	
Enacted FY 2018 Budget (May 2017)	4.3%
4-Sector Consensus (January 2018)	4.3%
4-Sector Consensus (April 2018)	5.6%
Enacted FY 2019 Budget (May 2018) ^{1/}	6.0%
<u>FY 2019</u>	
4-Sector Consensus (January 2018)	3.6%
4-Sector Consensus (April 2018)	3.7%
Enacted FY 2019 Budget (May 2018) ^{1/}	4.0%
<u>FY 2020</u>	
4-Sector Consensus (January 2018)	4.3%
4-Sector Consensus (April 2018)	4.2%
Enacted FY 2019 Budget (May 2018) ^{1/}	4.4%
<u>FY 2021</u>	
4-Sector Consensus (January 2018)	4.5%
4-Sector Consensus (April 2018)	4.5%
Enacted FY 2019 Budget (May 2018) ^{1/}	4.4%
^{1/} Base revenue projections under the enacted May 2018 budget are based on the Executive's estimates for FY 2018 and a negotiated agreement between the Executive and Legislature for FY 2019 through FY 2021.	

Long-Term Projections

The FY 2019 budget also incorporated revenue planning estimates for FY 2020 and FY 2021, which are shown in *Table 8*. The base revenue growth rates included in the FY 2020 and FY 2021 revenue planning estimates are based on a negotiated agreement between the Executive and the Legislature. Under this agreement, base revenue would increase by 4.4% in both FY 2020 and FY 2021.

In comparison, the January and April 4-sector forecasted a FY 2020 base revenue growth of 4.3% and 4.2%, respectively. For FY 2021, both the January and April 4-sector projected a base revenue growth rate of 4.5%. The January 2018 and April 2018 4-sector consensus estimates for FY 2020 and FY 2021 are shown in *Table 3*.

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 13 public and private sector economists, this independent panel meets 3 times a year to

provide the Legislature with guidance on the status of the Arizona economy.

- The University of Arizona Economic and Business Research (EBR) General Fund Baseline model. The model is a simultaneous-equation model consisting of more than 100 equations that are updated on a regular basis to reflect changes in the economy. The model uses more than 200 variables related to Arizona’s economy and is updated quarterly.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

The estimates for the remaining revenue categories, which constitute about 5% of the total, were based on JLBC Staff projections.

Revenue Adjustments

Table 4 provides an overview of base revenue growth rates for FY 2018 and FY 2019 with budget legislation changes (which include several tax law changes and revenue adjustments described in more detail in *Table 5*) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on the enacted FY 2019 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 4*, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by \$(118.2) million in FY 2018. As noted above, the FY 2018 base revenue growth of 6.0% excludes these changes. The enacted budget assumes a base revenue growth rate of 4.0% in FY 2019. Net General Fund revenue, which includes the impact of previously and newly enacted legislation, ongoing public safety transfers, Department of Revenue (DOR) enforcement revenue, Urban Revenue Sharing and one-time financing sources is estimated to increase by 6.0% in FY 2019. The following section provides a detailed description of previously and newly enacted legislation with an ongoing revenue impact in FY 2018 through FY 2021. This section also includes a discussion of other provisions and measures with ongoing revenue impact, such as the enactment of public safety transfers and the hiring of additional collections and audit staff at DOR. (See *Table 5* for a complete list of each statutory and program change affecting collections in FY 2018 through FY 2021.)

Table 3

**4-Sector Estimates
Forecast Percentages (FY 2018 - FY 2021)
Base Revenue ^{1/2/}**

	FY 2018					FY 2019				
	<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	4.5%	3.9%	4.7%	4.5%	4.4%	3.9%	1.7%	4.8%	4.2%	3.7%
April	5.5%	5.0%	5.4%	5.6%	5.4%	4.8%	1.5%	4.6%	4.5%	3.8%
<u>Individual Income Tax</u>										
January	4.5%	4.2%	6.1%	5.6%	5.1%	3.9%	0.9%	4.4%	4.6%	3.5%
April	6.7%	7.1%	8.6%	7.0%	7.3%	4.8%	1.2%	4.4%	4.0%	3.6%
<u>Corporate Income Tax</u>										
January	(1.1%)	3.9%	4.5%	4.3%	2.9%	2.5%	0.5%	4.6%	5.7%	3.4%
April	(7.5%)	1.9%	2.9%	11.2%	2.1%	1.3%	0.3%	3.6%	3.6%	2.3%
<u>Insurance Premium Tax</u>										
January	3.4%	2.7%	2.7%	3.4%	3.0%	3.4%	1.3%	1.5%	4.1%	2.6%
April	0.3%	2.0%	2.0%	(0.3)%	1.0%	2.0%	0.4%	0.4%	2.9%	1.4%
<u>Overall ^{3/}</u>										
January	3.9%	3.7%	4.8%	4.6%	4.3%	3.9%	1.5%	4.5%	4.4%	3.6%
April	5.0%	5.4%	6.2%	5.8%	5.6%	4.7%	1.5%	4.4%	4.3%	3.7%
	FY 2020					FY 2021				
	<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	4.0%	4.0%	5.2%	4.1%	4.3%	4.3%	4.5%	4.8%	4.0%	4.4%
April	4.1%	3.5%	5.0%	4.3%	4.2%	4.3%	4.5%	4.3%	4.2%	4.3%
<u>Individual Income Tax</u>										
January	3.7%	4.4%	5.4%	5.3%	4.7%	4.0%	5.6%	5.0%	5.2%	4.9%
April	4.2%	4.0%	5.1%	5.5%	4.7%	3.8%	5.4%	5.0%	5.3%	4.9%
<u>Corporate Income Tax</u>										
January	(1.4)%	2.7%	3.6%	4.2%	2.4%	5.3%	9.4%	4.6%	3.0%	5.5%
April	1.5%	4.7%	4.7%	4.7%	4.0%	2.3%	7.5%	5.4%	4.0%	4.9%
<u>Insurance Premium Tax</u>										
January	3.1%	1.4%	1.5%	3.8%	2.5%	3.3%	1.3%	1.8%	3.8%	2.6%
April	2.2%	0.3%	0.4%	2.3%	1.3%	2.0%	1.1%	1.6%	2.2%	1.7%
<u>Overall ^{3/}</u>										
January	3.7%	4.0%	5.0%	4.6%	4.3%	4.1%	5.0%	4.6%	4.5%	4.5%
April	3.7%	3.5%	4.7%	4.6%	4.2%	3.9%	4.8%	4.5%	4.6%	4.5%

^{1/} Prior to any tax law or other revenue changes.

^{2/} The enacted FY 2019 budget used base revenue growth rates of 6.0% in FY 2018, 4.0% in FY 2019, 4.4% in FY 2020, and 4.4% in FY 2021.

^{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.

As shown in *Table 5*, ongoing budget legislation enacted prior to the 2018 Regular Session is estimated to reduce General Fund revenue by \$(118.2) million in FY 2018, followed by an additional reduction of \$(75.3) million in FY 2019, \$(6.4) million in FY 2020, and \$(5.8) million in FY 2021. All revenue impacts in *Table 5* are stated relative to the prior year.

Newly enacted ongoing legislation in 2018 is estimated to increase General Fund revenue by \$6.5 million in FY 2019, followed by an additional increase of \$3.0 million in FY 2020. As shown in *Table 5*, this means that the total combined ongoing revenue impact of all (previously and newly) enacted legislation is \$(118.2) million in FY 2018, followed by additional revenue reductions of \$(68.8) million in FY 2019, \$(3.4) million in FY 2020, and \$(5.8) million in FY 2021.

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 6*.

Previously (Pre-2018) 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 within the first few weeks of each fiscal year from FY 2013 through FY 2017. In FY 2018, there was slower growth in tax credit usage than in prior years. The FY 2018 credit cap of \$74.3 million was not reached until the end of December 2017. Credit donations are currently projected to reach the cap of \$89.2 million in FY 2019.

Given the slowdown in the use of new credits, it is difficult to predict overall usage in FY 2020 and FY 2021. As a result, the forecast does not include any growth in these 2 years. This assumption may be modified based on actual FY 2019 credit usage.

2) Phase-Down of Corporate Income Tax Rate – Laws 2011, 2nd Special Session, Chapter 1 reduced the corporate income tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. The final phase-in of the rate reduction is estimated to reduce corporate income tax collections by \$(43.5) million in FY 2018, followed by an additional reduction of \$(32.1) million in FY 2019.

3) Phase-In of Single Corporate Sales Factor – Laws 2011, 2nd Special Session, Chapter 1 increased 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. The final phase-in of this provision is estimated to reduce corporate income tax collections by \$(18.7) million in FY 2018, followed by an additional reduction of \$(11.6) million in FY 2019.

4) 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

Table 4
General Fund Revenue Growth Rates
Based on Enacted FY 2018 and FY 2019 Budget
(\$ in Millions)

	<u>FY 2018</u>	<u>%</u>	<u>FY 2019</u>	<u>%</u>
Base Revenue	\$10,501.3 ^{1/}	6.0%	\$10,921.5	4.0%
Previously Enacted Tax Law Changes	N/A		(75.3)	
Newly Enacted Tax Law Changes	N/A		6.5	
Public Safety Transfers	0.0		72.4	
Enforcement Revenue	0.0		55.0	
Urban Revenue Sharing	(680.8)		(674.8)	
One-Time Financing Sources:				
Balance Forward	150.9		204.5	
Moody's Settlement Fund Transfer	8.2		0.0	
Other Fund Transfers	46.2		120.7	
TY 2017 IRC Conformity	<u>0.0</u>		<u>(5.0)</u>	
Subtotal	205.3		320.2	
Adjusted Revenue	<u>\$10,025.8</u>	2.4%	<u>\$10,625.5</u>	6.0%

^{1/} \$(118.2) million in previously enacted tax law changes are included in the FY 2018 base revenue amount. The FY 2018 increase of 6.0% shown above excludes these changes.

requirements for new employees and extended the credit program by 3 years, from TY 2019 to TY 2022. The credit is refundable but no single taxpayer can claim more than \$30 million per calendar year. The credit must be taken in equal installments over 5 years. The qualified facility credit is subject to an annual aggregate cap of \$70 million. Prior to 2018, the \$70 million cap was shared with the renewable energy investment credit (which was repealed after December 31, 2017 pursuant to Laws 2017, Chapter 299). The qualified facility credit is estimated to reduce General Fund revenue by \$(4.0) million in FY 2018, followed by an additional reduction of \$(2.8) million in FY 2019.

5) Reduction of Ongoing Judiciary Transfers – The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorized 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. The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) modified the FY 2018 Judiciary fund transfers included in Laws 2016, Chapter 117 by reducing the aggregate amount of the transfer from \$3.0 million to \$2.6 million, beginning in FY 2018. In terms of the impact relative to the prior year, Chapter 305 resulted in General Fund reduction of \$(2.4) million in FY 2018. *(Note that Laws 2018, Chapter 276 eliminates ongoing Judiciary Fund transfers to the General Fund, beginning in FY 2019. For more detail, see Item 19) below.)*

6) 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 \$(4.1) million in FY 2018, followed by further decreases of \$(4.3) million in FY 2019, \$(4.7) million in FY 2020, and \$(5.0) million in FY 2021.

7) 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. Under the 2017 Internal Revenue Code (IRC) conformity bill (Laws 2017, Chapter 2), Chapter 118 is estimated to reduce individual income tax revenue by \$(8.0) million in FY 2018. This estimate was based on the 50% federal bonus depreciation allowance in effect

for TY 2017 when the 2017 IRC conformity bill was enacted. (As discussed in the "One-Time Financing" section, the increase of the federal bonus depreciation allowance under the federal Tax Cuts and Jobs Act (TCJA) enacted in December 2017, is estimated to result in a one-time revenue loss of \$(5.0) million in FY 2019.)

8) 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.

9) 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 \$(12.2) million, beginning in FY 2018.

10) Diverting NEMF Assessment from General Fund – The state levies an assessment on each consortium of public service corporations engaged in operating a commercial nuclear generating station. In practice, the assessment is only paid by the Palo Verde nuclear plant. Prior to FY 2018, the monies collected from the assessment were deposited in the General Fund. The Legislature then appropriated 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 annually, beginning in FY 2018.

11) ADA Retrofits Subtraction – Laws 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 1 year rather than expensing it over several years. The income tax subtraction, which is effective from 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.

12) 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.

13) Inflation Indexing of Personal Exemption – Laws 2017, Chapter 299 increased 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 1 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 1 dependent.

Beginning in TY 2019, the personal exemption amounts are adjusted annually for inflation.

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 an additional reduction of \$(6.7) million in FY 2019. Beyond FY 2019, future revenue losses from indexing are incorporated into base revenue.

14) 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.

15) Deposit of Appraisal Fee into General Fund – Laws 2017, Chapter 334 eliminated the Board of Appraisal Fund and transferred those monies to the General Fund, beginning in FY 2018. This change 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.

16) Redirection of Fees from General Fund to ADOH – Laws 2016, Chapter 128 transferred the Office of Manufactured Housing from the Department of Fire, Building and Life Safety to the Arizona Department of Housing (ADOH). To pay for ADOH's increased responsibilities, Laws 2017, Chapter 335 provides that certain fees previously assessed by the Office of Manufactured Housing and deposited into the General Fund be redirected to ADOH, beginning in FY 2018. As a result, Chapter 335 is estimated to reduce General Fund revenue by \$(1.0) million annually, beginning in FY 2018.

17) 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 first-year credits for up to 10,000 new employees (\$30 million) each year. Laws 2017, Chapter 340 extended the job tax credit (which otherwise would have expired at the end of FY 2017) through FY 2025. Moreover, Chapter 340 expanded the credit by providing additional minimum investment and wage requirements, beginning in TY 2018. The expansion of the job tax credit is estimated to reduce General Fund revenue by \$(0.8) million in FY 2019, followed by additional reductions of \$(0.9) million in FY 2020, and \$(0.8) million in FY 2021.

Newly (2018) Enacted Legislation

18) TPT from Online Lodging Marketplaces and Sales Suppression Software – Current law allows an online lodging marketplace to voluntarily register with the Department of Revenue (DOR) in order to obtain a TPT license for the purpose of remitting sales tax on online lodging transactions facilitated by the marketplace. (An online lodging marketplace is any digital platform that provides, at a cost, an unaffiliated third-party with a platform to rent lodging accommodations.) Beginning in calendar year 2019, Laws 2018, Chapter 189 requires (as opposed to allow) all online lodging marketplaces to register with DOR for a TPT license for the purpose of remitting sales tax on all online lodging transactions facilitated by them.

Laws 2018, Chapter 190 makes the use of any automated sales suppression (or "zapper") software for tax evasion purposes illegal and subject to a fine of no more than \$500,000 for corporations and \$100,000 for all others. While fines will be deposited in a new fund established by the act (Tax Fraud Interdiction Fund), taxes, penalties, and interest owed as a result of businesses using sales suppression software will be distributed in the same manner as for the Transaction Privilege Tax (TPT). Combined, Chapters 189 and 190 are estimated to increase General Fund revenue by \$10.0 million in FY 2019, followed by an additional \$5.0 million annually, beginning in FY 2020.

19) Elimination of Ongoing Judiciary Fund Transfers – The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) authorized total transfers of \$2.6 million from various Judiciary funds to the General Fund, beginning in FY 2018. Beginning in FY 2019, the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) eliminates the \$2.6 million in ongoing transfers provided by Laws 2017, Chapter 305. Therefore, Chapter 276 has the effect of reducing General Fund revenue by \$(2.6) million annually, beginning in FY 2019. (Chapter 276

includes a one-time transfer of \$2.0 million in FY 2019 from various Judiciary funds to the General Fund.)

20) Reduction of Liquor Licenses Fund Transfer – Pursuant to A.R.S. § 4-120, any monies remaining in the Liquor Licenses Fund in excess of \$700,000 at the end of each fiscal year is deposited in the General Fund. Laws 2018, Chapter 276 provided various changes to the Department of Liquor Licenses and Control's operating budget, which resulted in the appropriation from the Liquor Licenses Fund to the department being increased by \$91,100 in FY 2019. Since these changes reduced the excess fund balance by the same amount, General Fund revenue is reduced by \$(91,100) annually, beginning in FY 2019.

21) Increase of Military Pension Exemption – The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283) increases the individual income tax exemption for military pensions from \$2,500 to \$3,500, beginning in TY 2019. Chapter 283 is estimated to reduce General Fund revenue by \$(2.0) million annually, beginning in FY 2020.

22) Boxing/MMA Fees Shifts from General Fund – Laws 2018, Chapter 283 directs all boxing and mixed martial arts-related revenues, excluding licensing fees, to be deposited into the Unarmed Combat Subaccount within the Racing Regulation Fund in FY 2019. These monies were previously deposited into the General Fund. As a result, General Fund revenues will be reduced by \$(45,100) annually, beginning in FY 2019.

23) Cap on Radiation Regulatory Fees Shift from General Fund – The FY 2019 Health BRB (Laws 2018, Chapter 284) requires that the first \$300,000 in radiation regulatory fees be deposited in the General Fund while remaining fees be allocated using the "90/10" agency model. (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.) Chapter 284 is expected to reduce General Fund revenue by \$(773,400) annually, beginning in FY 2019.

Other Changes with Ongoing Revenue Impact

Besides the enacted tax law and revenue changes listed in *Table 5*, the budget included other changes with an ongoing revenue impact totaling \$127.4 million in FY 2019, of which \$72.4 million is from public safety transfers and \$55.0 million from additional Department of Revenue enforcement revenues. Each of these revenue items is discussed below.

Public Safety Transfers

Laws 2018, Chapter 265 establishes a new highway safety fee that will be charged on car registrations and set by the

Director of the Arizona Department of Transportation (ADOT) at a level to fund 110% of the Department of Public Safety's (DPS) highway patrol budget. The new fee will go into effect on January 1, 2019.

FY 2021, respectively. The adopted budget uses the same URS estimates for FY 2020 and FY 2021 as under the January Baseline.

The new highway safety fee changes the funding of DPS such that it will result in a General Fund revenue increase of \$72.4 million in FY 2019. *(For more details on the highway safety fee and related changes to the funding of DPS, see specific agency pages for the Department of Public Safety.)* Of this amount, \$30 million is a transfer to the General Fund from the Highway Expansion and Extension Loan Program Fund (HELP) and \$42.4 million is a transfer from the Vehicle License Tax (VLT).

Beginning in FY 2020, the General Fund will receive total transfers of \$55.7 million annually, or \$(16.7) million below the FY 2019 level. Of this amount, \$39.6 million will come from ongoing fund transfers to the General Fund from DPS funds that are currently funding the highway patrol budget (and that will be replaced by revenues from the new highway safety fee). The additional \$16.1 million will come from the 10% excess highway safety fee, which will be transferred to the General Fund.

Enforcement Revenue

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) provides \$2.0 million in funding to the Department of Revenue (DOR) for 25 Full-Time Equivalent (FTE) Positions for additional audit and collections staff. This provision is expected to generate \$25.0 million in additional General Fund revenue, beginning in FY 2019.

DOR currently uses a private data analytics firm to identify individual income tax evasion. Using contingent fee contracts, DOR will expand this type of tax fraud prevention service to include the Transaction Privilege Tax (TPT), which is expected to increase General Fund revenue by \$30.0 million annually, beginning in FY 2019.

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 7*, total URS distributions will decrease from \$680.8 million in FY 2018 to \$674.8 million in FY 2019. This URS decrease results in a FY 2019 General Fund revenue gain of \$6.0 million relative to FY 2018. As shown in *Table 8*, URS distributions are estimated to increase to \$694.6 million in FY 2020 and \$708.9 million in FY 2021, which will result in net General Fund revenue losses of \$(19.8) million and \$(14.3) million in FY 2020 and

Table 5

**Previously and Newly Enacted Budget Legislation with Ongoing Revenue Impact in FY 2018 through FY 2021
(\$ Millions) ^{1/2/}**

<u>Previously Enacted Legislation / Description of Provision</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
<u>Laws 2006, Ch. 14 & Ch. 325</u>				
1) Corporate school tuition credit for low-income students	\$(12.4)	\$(14.9)	\$0.0	\$0.0
<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	(43.5)	(32.1)	0.0	0.0
3) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in TY 2014	(18.7)	(11.6)	0.0	0.0
<u>Laws 2012, Ch. 343</u>				
4) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities ^{3/}	(4.0)	(2.8)	0.0	0.0
<u>Laws 2016, Ch. 117 & Laws 2017, Ch. 305</u>				
5) Provides ongoing Judiciary fund transfers to General Fund ^{4/}	(2.4)	0.0	0.0	0.0
<u>Laws 2015, Ch. 220 & Laws 2016, Ch. 358</u>				
6) Phases down insurance premium tax rate from 2.0% to 1.7% over 6 years, beginning in FY 2017	(4.1)	(4.3)	(4.7)	(5.0)
<u>Laws 2016, Ch. 118</u>				
7) Increases state income tax deduction from 10% to 100% of federal bonus depreciation over 2 years, beginning in FY 2017	(8.0)	0.0	0.0	0.0
<u>Laws 2016, Ch. 367</u>				
8) Exempts aircraft and aircraft equipment operated by charter airlines from TPT	(2.3)	0.0	0.0	0.0
<u>Laws 2016, Ch. 374</u>				
9) Modifies existing TPT exemption for electricity and natural gas purchased by manufacturing and smelting facilities ^{5/}	(12.2)	0.0	0.0	0.0
<u>Laws 2017, Ch. 43</u>				
10) Diverts NEMF assessment from General Fund	(2.5)	0.0	0.0	0.0
<u>Laws 2017, Ch. 278</u>				
11) Provides income tax subtraction for ADA retrofits	0.0	(1.3)	0.0	0.0
<u>Laws 2017, Ch. 281</u>				
12) Decreases Captive Insurance Fund transfer to General Fund	(0.1)	0.0	0.0	0.0
<u>Laws 2017, Ch. 299</u>				
13) Inflation-indexing of personal exemption amounts	(6.8)	(6.7)	0.0	0.0
<u>Laws 2017, Ch. 319</u>				
14) Adds a total of \$10 million in new angel investment credits	(0.8)	(0.8)	(0.8)	0.0
<u>Laws 2017, Ch. 334</u>				
15) Diverts real estate appraisal fee to General Fund	0.7	0.0	0.0	0.0
<u>Laws 2017, Ch. 335</u>				
16) Redirects fees from General Fund to the Arizona Department of Housing, beginning in FY 2018.	(1.0)	0.0	0.0	0.0

<u>Previously Enacted Legislation / Description of Provision (Cont'd)</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
<u>Laws 2017, Ch. 340</u>				
17) Modifies eligibility requirements for job tax credit and extends credit through FY 2025 ^{6/}	<u>0.0</u>	<u>(0.8)</u>	<u>(0.9)</u>	<u>(0.8)</u>
Subtotal – Revenue Impact over Prior Year for <u>Previously Enacted Budget Legislation</u>	\$(118.2)	\$(75.3)	\$(6.4)	\$(5.8)
<u>Newly Enacted Legislation / Description of Provision</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
<u>Laws 2018, Ch. 189 & Ch. 190</u>				
18) Requires all online lodging marketplaces to remit TPT, beginning in CY 2019 (Ch. 189) and makes the use of sales suppression software illegal and subject to fines (Ch. 190)	0.0	10.0	5.0	0.0
<u>Laws 2018, Ch. 276</u>				
19) Eliminates ongoing Judiciary Fund transfers to General Fund	0.0	(2.6)	0.0	0.0
20) Reduces Liquor Licenses Fund transfers to General Fund	0.0	(0.1)	0.0	0.0
<u>Laws 2018, Ch. 283</u>				
21) Increases military pension exemption from \$2,500 to \$3,500, beginning in TY 2019	0.0	0.0	(2.0)	0.0
22) Shifts boxing and mixed martial arts fees from General Fund to Racing Regulation Fund	0.0	(0.1)	0.0	0.0
<u>Laws 2018, Ch. 284</u>				
23) Caps radiation regulatory fees shift from General Fund	<u>0.0</u>	<u>(0.8)</u>	<u>0.0</u>	<u>0.0</u>
Subtotal – Revenue Impact over Prior Year for <u>Newly Enacted Budget Legislation</u>	\$0.0	\$6.5	\$3.0	\$0.0
Total – Revenue Impact over Prior Year for All (Previously and Newly) Enacted Budget Legislation	\$(118.2)	\$(68.8)	\$(3.4)	\$(5.8)
<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 2018 budget in May 2017.</p> <p>3/ Impact began in FY 2014.</p> <p>4/ Transfers authorized by Laws 2016, Chapter 117 and Laws 2017, Chapter 305 were eliminated by Laws 2018, Chapter 276 (item 19).</p> <p>5/ The requirements to qualify for the TPT exemption created by Laws 2014, Chapter 7 were modified by Laws 2016, Chapter 374.</p> <p>6/ 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 extended the credit from FY 2017 through FY 2025 and modified the minimum investment and wage requirements.</p>				

One-Time Financing

As shown in *Table 6*, one-time financing sources are available in FY 2018 through FY 2021. The following is a discussion of the one-time financing sources.

FY 2018

The \$205.3 million in one-time financing sources for FY 2018 includes:

Moody's Settlement Fund Transfer

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) required 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

Table 6

FY 2018 through FY 2021 One-Time Financing Sources
(\$ in Millions)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Balance Forward	\$150.9	\$204.5	\$236.0	\$187.4
Budget Legislation:				
Moody's Settlement Fund Transfer	8.2	0.0	0.0	0.0
Other Fund Transfers	46.2	120.7	1.8	0.0
TY 2017 IRC Conformity	<u>0.0</u>	<u>(5.0)</u>	<u>0.0</u>	<u>0.0</u>
Total One-Time Financing	<u>\$205.3</u>	<u>\$320.2</u>	<u>\$237.8</u>	<u>\$187.4</u>

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 is transferred to the General Fund in FY 2018.

Other Fund Transfers

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) provides for an additional \$46.2 million in fund transfers to the General Fund in FY 2019. The original FY 2018 budget did not include such fund transfers. *(For more detail on the FY 2018 fund transfers, see section "Detailed List of Changes by Agency.")*

Balance Forward

The FY 2017 General Fund ending balance carried into FY 2018 was \$150.9 million.

FY 2019

The \$320.2 million in one-time financing sources for FY 2019 includes:

Fund Transfers

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) authorizes a total of \$120.7 million in fund transfers to the General Fund in FY 2019. *(For more detail on the FY 2019 fund transfers, see section "Detailed List of Changes by Agency.")*

TY 2017 IRC Conformity

The federal Tax Cuts and Jobs Act (TCJA) enacted in December 2017 increases the federal bonus depreciation allowance from 50% to 100% for qualified equipment placed in service between September 28, 2017 and December 31, 2022. The 2018 Internal Revenue Code (IRC) conformity bill (Laws 2018, Chapter 142), which was signed into law on April 5, 2018, only conforms state statutes to the TCJA provisions that were effective retroactively for TY 2017. Therefore, the state income deduction for TY 2018 is currently based on the pre-TCJA bonus depreciation allowance of 50%. Chapter 142 is estimated to result in a one-time individual income tax revenue loss of \$(5.0) million in FY 2019.

Balance Forward

The FY 2018 General Fund ending balance carried into FY 2019 is projected to be \$204.5 million.

FY 2020

The \$237.8 million in one-time financing sources for FY 2020 includes:

Fund Transfers

As a result of a large settlement recently reached between the Attorney General and Volkswagen related to the car maker's vehicle emissions violations, the budget provides for a total of \$1.8 million in transfers from the Department of Environmental Quality's Air Quality Fund and the Department of Public Safety's Joint Fund to the General Fund in FY 2020. *(For more background on the Volkswagen settlement and related fund transfers, see specific agency pages for the Attorney General - Department of Law.)*

Balance Forward

The FY 2019 General Fund ending balance carried into FY 2020 is projected to be \$236.0 million.

FY 2021

The \$187.4 million in one-time financing sources for FY 2021 includes:

Balance Forward

The FY 2020 General Fund ending balance carried into FY 2021 is projected to be \$187.4 million.

Table 7

GENERAL FUND REVENUE - FY 2017 - FY 2019

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2017	% CHANGE PRIOR YR	FORECAST FY 2018	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2019	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,506,161.1	4.5%	4,751,609.7	5.4%	245,448.7	4,945,713.0	4.1%	194,103.3
Income - Individual	4,130,898.7	4.1%	4,425,952.4	7.1%	295,053.6	4,593,160.3	3.8%	167,208.0
- Corporate	368,136.4	-35.5%	317,918.8	-13.6%	(50,217.6)	324,143.4	2.0%	6,224.6
Property	32,538.5	-15.4%	32,466.4	-0.2%	(72.1)	34,505.7	6.3%	2,039.3
Luxury - Tobacco	22,935.1	-8.1%	21,967.2	-4.2%	(967.9)	21,409.6	-2.5%	(557.6)
- Liquor	34,703.2	1.8%	35,620.0	2.6%	916.8	36,286.0	1.9%	666.0
Insurance Premium	504,339.3	2.8%	505,064.7	0.1%	725.4	517,095.7	2.4%	12,031.0
Other Taxes	2,740.7	-65.6%	3,486.5	27.2%	745.8	988.8	-71.6%	(2,497.7)
Subtotal - Taxes	9,602,453.1	1.6%	10,094,085.8	5.1%	491,632.7	10,473,302.6	3.8%	379,216.8
Other Non-Tax Revenues:								
Lottery	78,690.4	21.1%	82,868.2	5.3%	4,177.7	90,333.0	9.0%	7,464.8
Licenses, Fees and Permits	38,436.5	24.8%	38,454.8	0.0%	18.3	42,396.6	10.3%	3,941.8
Interest	17,001.0	26.0%	19,036.0	12.0%	2,035.0	31,728.9	66.7%	12,692.9
Sales and Services	42,062.1	-1.5%	42,355.0	0.7%	292.9	41,649.2	-1.7%	(705.8)
Other Miscellaneous	83,890.5	-9.4%	88,520.0	5.5%	4,629.4	83,132.1	-6.1%	(5,387.9)
Transfers and Reimbursements	64,129.5	-22.4%	40,753.5	-36.5%	(23,376.0)	63,872.1	56.7%	23,118.6
Disproportionate Share Revenue	94,321.7	0.5%	95,246.5	1.0%	924.9	95,132.7	-0.1%	(113.8)
Subtotal - Other Non-Tax	418,531.7	-0.6%	407,233.9	-2.7%	(11,297.7)	448,244.6	10.1%	41,010.7
Subtotal On-Going Revenue	10,020,984.8	1.5% ^{1/}	10,501,319.8	4.8% ^{2/}	480,335.0	10,921,547.2	4.0%	420,227.4
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(75,296.2)	N/A	(75,296.2)
Newly Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	6,490.4	N/A	6,490.4
Public Safety Transfers	0.0	N/A	0.0	N/A	0.0	72,364.5	N/A	72,364.5
Enforcement Revenue	0.0	N/A	0.0	N/A	0.0	55,000.0	N/A	55,000.0
Subtotal w/Tax Law Changes	10,020,984.8	1.5%	10,501,319.8	4.8%	480,335.0	10,980,105.9	4.6%	478,786.1
Urban Revenue Sharing (URS)	(663,582.2)	N/A	(680,770.1)	N/A	(17,187.9)	(674,804.4)	N/A	5,965.6
Subtotal w/Tax Law Changes/URS	9,357,402.6	1.0%	9,820,549.7	4.9%	463,147.1	10,305,301.5	4.9%	484,751.8
One-Time Financing Sources:								
Prior Enacted Fund Transfers	145,091.5	-34.1%	8,172.7	-94.4%	(136,918.8)	0.0	-100.0%	(8,172.7)
Other Fund Transfers	0.0	N/A	46,219.0	N/A	46,219.0	120,681.7	161.1%	74,462.7
TY 2017 IRC Conformity	0.0		0.0	N/A	0.0	(5,000.0)	N/A	(5,000.0)
Subtotal - One-Time Financing Sources	145,091.5	-34.1%	54,391.7	-62.5%	(90,699.8)	115,681.7	112.7%	61,290.0
Subtotal - Revenues	9,502,494.1	0.2%	9,874,941.4	3.9%	372,447.3	10,420,983.2	5.5%	546,041.8
Balance Forward	284,015.0	-9.1%	150,871.0	-46.9%	(133,144.0)	204,482.0	35.5%	53,611.0
Total - Resources	9,786,509.1	-0.1%	10,025,812.4	2.4%	239,303.3	10,625,465.2	6.0%	599,652.8

^{1/} The 1.5% FY 2017 increase includes \$(127.4) million in tax law changes. Adjusting for these changes and one-time tax amnesty monies of \$47 million in FY 2016, the base FY 2017 increase is 3.3%.

^{2/} The 4.8% FY 2018 increase includes \$(118.2) million in tax law changes. Adjusting for these changes, the base FY 2018 increase is 6.0%.

Table 8

GENERAL FUND REVENUE - FY 2020 - FY 2021

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2020	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2021	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,221,682.3	5.6%	275,969.3	5,447,862.3	4.3%	226,179.9
Income - Individual	4,815,301.0	4.8%	222,140.6	5,045,853.0	4.8%	230,552.1
- Corporate	271,335.3	-16.3%	(52,808.1)	278,177.2	2.5%	6,841.9
Property	33,402.8	-3.2%	(1,102.9)	33,793.1	1.2%	390.4
Luxury - Tobacco	21,236.3	-0.8%	(173.3)	21,068.5	-0.8%	(167.9)
- Liquor	37,043.7	2.1%	757.7	37,823.4	2.1%	779.6
Insurance Premium	519,990.2	0.6%	2,894.5	526,892.9	1.3%	6,902.7
Other Taxes	1,038.2	5.0%	49.4	1,090.1	5.0%	51.9
Subtotal - Taxes	10,921,029.9	4.3%	447,727.3	11,392,560.5	4.3%	471,530.6
Other Non-Tax Revenues:						
Lottery	105,704.9	17.0%	15,371.9	116,963.9	10.7%	11,259.0
Licenses, Fees and Permits	42,965.9	1.3%	569.3	44,508.8	3.6%	1,542.9
Interest	41,645.6	31.3%	9,916.7	46,065.2	10.6%	4,419.6
Sales and Services	41,871.3	0.5%	222.1	42,071.7	0.5%	200.3
Other Miscellaneous	81,269.3	-2.2%	(1,862.8)	84,289.6	3.7%	3,020.4
Transfers and Reimbursements	127,518.7	99.6%	63,646.7	114,450.5	-10.2%	(13,068.3)
Disproportionate Share Revenue	94,663.2	-0.5%	(469.5)	94,663.2	0.0%	0.0
Subtotal - Other Non-Tax	535,638.9	19.5%	87,394.3	543,012.8	1.4%	7,373.9
Subtotal On-Going Revenue	11,456,668.8	4.9% 3/	535,121.6	11,935,573.3	4.2% 4/	478,904.5
Previously Enacted Tax Law Changes	(6,433.3)	N/A	68,862.9	(5,800.0)	N/A	633.3
Newly Enacted Tax Law Changes	3,000.0	-53.8%	(3,490.4)	0.0	-100.0%	(3,000.0)
Public Safety Transfers	(16,694.5)	N/A	(89,059.0)	0.0	N/A	16,694.5
Enforcement Revenue	0.0	-100.0%	(55,000.0)	0.0	N/A	0.0
Subtotal w/Tax Law Changes	11,436,541.0	4.2%	456,435.1	11,929,773.3	4.3%	493,232.3
Urban Revenue Sharing (URS)	(694,639.4) 5/	N/A	(19,834.9)	(708,904.3) 5/	N/A	(14,264.9)
Subtotal w/Tax Law Changes/URS	10,741,901.6	4.2%	436,600.2	11,220,869.0	4.5%	478,967.4
One-Time Financing Sources:						
Prior Enacted Fund Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Other Fund Transfers	1,840.7	-98.5%	(118,841.0)	0.0	-100.0%	(1,840.7)
TY 2017 IRC Conformity	0.0	N/A	5,000.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	1,840.7	-98.4%	(113,841.0)	0.0	-100.0%	(1,840.7)
Subtotal - Revenues	10,743,742.3	3.1%	322,759.2	11,220,869.0	4.4%	477,126.7
Balance Forward	236,004.3	15.4%	31,522.3	187,419.8	-20.6%	(48,584.5)
Total - Resources	10,979,746.6	3.3%	354,281.5	11,408,288.8	3.9%	428,542.2

3/ Adjusting for the \$(68.8) million in previously and newly enacted tax law changes in FY 2019, the base FY 2020 increase is 4.4%. This excludes the impact of enforcement revenue and public safety transfers.

4/ Adjusting for the \$(3.4) million in previously and newly enacted tax law changes in FY 2020, the base FY 2021 increase is 4.4%. This excludes the impact of enforcement revenue and public safety transfers.

5/ Enacted budget uses the same URS estimates as in the January Baseline.

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 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.

A.R.S. § 35-144 authorizes BSF monies to be used by the State Forester to pay wildland fire suppression claims. 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.

In each month of FY 2017, BSF monies were used by the State Forester to pay wildland fire suppression claims. At the end of FY 2017, the fund had \$2.9 million in outstanding unreimbursed claims, which the State Forester reimbursed 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 required the BSF to be fully reimbursed by September 1, 2017. DES withdrew \$25.0 million in July 2017 and reimbursed the State Treasurer for that amount in September 2017.

FY 2018

In CY 2017, Arizona adjusted personal income increased by 2.61%, with a trend growth rate of 3.15%. Since the CY 2017 growth rate was (0.54)% lower than the trend growth rate, but still higher than 2.0%, the formula did not recommend a withdrawal. A deposit requires the most recent calendar year growth rate to exceed the trend growth rate. The Legislature did not authorize any deposit or withdrawal.

As of May 2018, the fund has \$5.7 million in outstanding unreimbursed wildland fire suppression claims, which the State Forester will reimburse to the Treasurer upon federal payment on the claims.

Laws 2017, Chapter 305 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

Additionally, Laws 2017, Chapter 305 appropriated \$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.

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) authorizes the Department of Economic Security (DES) to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2018. Chapter 276 requires the BSF to be fully reimbursed by September 1, 2018.

FY 2019

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will grow by 3.20% in CY 2018. Since this is 0.21% above the estimated trend growth rate of 2.99%, the formula is projected to recommend a BSF deposit of \$20.6 million in FY 2019.

Laws 2018, Chapter 276 appropriates \$2.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2019.

Laws 2018, Chapter 276 also allows the Department of Public Safety to use up to \$23.3 million from the BSF in FY 2019 to provide temporary operating funding. It also requires the BSF to be fully reimbursed by September 1, 2019.

STATUTORY CHANGES

The FY 2019 Budget Procedures Budget Reconciliation Bill (Laws 2018, Chapter 279) 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 2019, FY 2020, and FY 2021.

Table 1

Budget Stabilization Fund ^{1/}
(\$ in Thousands)

	Actual FY 2016	Actual FY 2017	Estimate FY 2018	Estimate FY 2019
General Fund Revenues				
Adjusted Revenues	\$9,265,881.5 ^{2/}	\$9,358,542.0 ^{2/}	\$9,820,549.7	\$10,305,301.5
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	648,611.7	655,097.9	687,438.5	721,371.1
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	3.07%	3.17%	2.61%	3.20%
7-Year Average Income Growth	<u>0.42%</u>	<u>2.26%</u>	<u>3.15%</u>	<u>2.99%</u>
Annual Difference	2.65%	0.91%	(0.54)%	0.21%
BSF Transactions				
Beginning BSF Balance	457,627.4	460,846.5	461,446.9	458,268.2
BSF Formula Recommendation	236,770.3	84,319.5	0	20,623.2
Actual Transfer In				
None	0.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Monies – L'16, Ch. 219 ^{3/}	(587.8)	(2,902.0)	(5,678.7)	0.0
Transfer of BSF Interest Income – L'16, Ch. 117 ^{4/}	0.0	(1,500.0)	0.0	0.0
Transfer of BSF Interest Income – L'17, Ch. 305 ^{5/}	0.0	0.0	(1,500.0)	0.0
Transfer of BSF Interest Income – L'17, Ch. 305 ^{6/}	0.0	0.0	(2,600.0)	0.0
Transfer of BSF Interest Income – L'18, Ch. 276 ^{7/}	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(2,000.0)</u>
SUBTOTAL	(587.8)	(4,402.0)	(9,778.7)	(2,000.0)
Balance	457,039.6	456,444.5	451,668.2	456,268.2
Interest Earnings & Equity Gains/Losses ^{8/}	3,806.9	5,002.4	6,600.0	6,600.0
Ending BSF Balance	\$460,846.5	\$461,446.9	\$458,268.2	\$462,868.2
Percent of Revenues	5.0%	4.9%	4.7%	4.5%

^{1/} BSF history prior to FY 2016 can be found on the JLBC website.

^{2/} Actual General Fund revenue for FY 2016 and FY 2017, as determined by the Economic Estimates Commission.

^{3/} 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.

^{4/} Laws 2016, Chapter 117 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

^{5/} Laws 2017, Chapter 305 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

^{6/} Laws 2017, Chapter 305 appropriated \$2.6 million from BSF interest earnings to the Department of Education for rural assistance in FY 2018.

^{7/} Laws 2018, Chapter 276 appropriates \$2.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2019.

^{8/} Interest earnings for FY 2018 and FY 2019 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.

CONSOLIDATED RETIREMENT REPORT

CONSOLIDATED RETIREMENT REPORT

Summary

The Consolidated Retirement Report (CRR) provides financial information on the state's retirement systems, including the total state cost of the retirement systems and estimated cost of annual changes in the employer contribution rates.

Most public employees in Arizona are enrolled in one of the 5 following state retirement systems.

- The Arizona State Retirement System (ASRS), which 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.
- The Public Safety Personnel Retirement System (PSPRS), which provides similar benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters.
- The Corrections Officer Retirement Plan (CORP), which provides similar benefits to correctional officers at state-run facilities, detention officers at county jails, and certain public safety dispatcher positions.
- The Elected Officials' Retirement Plan (EORP), which provides similar benefits to elected officials. The population of elected officials includes state officials, county/city officials and judges. EORP is now closed to new enrollees. Elected officials who are elected after January 1, 2014 enroll in the Elected Officials' Defined Contribution Retirement System (EODCRS),

which provides a defined contribution retirement benefit.

- The University Optional Retirement Plan (UORP). 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.

The PSPRS Board of Trustees manages the PSPRS, CORP and EORP plans. The Arizona Board of Regents (ABOR) separately oversees the UORP plan.

FY 2019 Total Funding

Based on data provided by state agencies in their budget requests under A.R.S. § 35-115, JLBC estimates the General Fund cost associated with all retirement systems in FY 2019 is \$223.3 million and the Total State Funds cost is \$560.8 million. *(Please see Table 1 for the total costs.)*

Employer contribution rate for the retirement systems change each year depending on the latest actuarial valuation. Some of the retirement costs may be covered by agencies' non-appropriated funding sources.

The enacted FY 2019 budget appropriated \$41.3 million to state agencies for additional costs related to FY 2019 rate increases. This consists of \$35.1 million from the General Fund and \$6.1 million from Other Appropriated Funds. The budget appropriated funding for retirement increases as part of Statewide Adjustments, however 3 agencies, the Department of Corrections, the Department of

Table 1

Arizona Public Retirement FY 2019 System Employer Cost

	<u>FY 2019 Total Cost 1/</u>		
	<u>General Fund</u>	<u>All Other Funds 2/</u>	<u>Total</u>
Arizona State Retirement System	\$ 65,258,000	\$ 204,006,200	\$ 269,264,200
Public Safety Personnel Retirement System 3/	27,600,400	73,560,100	101,160,500
Corrections Officer Retirement Plan 3/	102,469,200	4,741,400	107,210,600
Elected Officials' Retirement Plan Defined Contribution Retirement System	12,711,200	287,600	12,998,800
University Optional Retirement Plan	15,281,800	54,853,500	70,135,300
Grand Total	\$ 223,320,600	\$ 337,448,800	\$ 560,769,400

1/ Represents the JLBC estimate of the total cost of the system and does not reflect any FY 2019 change in Personal Services costs.

2/ Includes both Other Appropriated Funds and Non-Appropriated Funds (including Federal Funds).

3/ "FY 2019 Total Cost" estimates are based on Tier 1 and Tier 2 employer contribution rates, and do not include the impact of Tier 3 employer contribution rates.

Juvenile Corrections and the Department of Public Safety received a retirement adjustment directly as part of their agency budget. *Table 2* shows the total appropriation in the FY 2019 budget for pension related increases.

FY 2019 Budgeted Employer Cost Change	
	FY 2019 Rate Increase
<i>Department of Corrections</i>	
General Fund	\$26,506,600
Other Appropriated Funds	<u>54,600</u>
Subtotal	\$26,561,200
<i>Department of Juvenile Corrections</i>	
General Fund	\$ 2,139,000
Other Appropriated Funds	<u>108,100</u>
Subtotal	\$ 2,247,100
<i>Department of Public Safety</i>	
General Fund	\$ 189,300
Other Appropriated Funds	<u>3,212,100</u>
Subtotal	\$ 3,401,400
<i>All Other Agencies (non-EORP)</i>	
General Fund	\$ 1,582,000
Other Appropriated Funds	<u>2,584,000</u>
Subtotal	\$ 4,166,000
<i>Elected Officials Retirement Adjustment</i>	
General Fund	\$ 4,727,200
All Other Funds	<u>177,700</u>
Subtotal	\$ 4,904,900
Total	
General Fund	\$35,144,100
Other Appropriated Funds	<u>6,136,500</u>
Grand Total	\$41,280,600

ASRS

The General Fund cost associated with ASRS in FY 2019 is estimated to be \$65.3 million and the Total State Funds cost is \$269.3 million.

At its December 2017 meeting, the ASRS Board of Trustees increased the pension contribution rate to 11.64% of Personal Services in FY 2019. The FY 2018 rate was 11.34%. The employer contribution rate for disability insurance remained the same at 0.16%, for a total overall employer contribution rate of 11.80% (compared to 11.50% last year).

The contribution rate is higher because of increased liabilities and lower-than-expected investment returns. (Please see *Table 3* for historical ASRS contribution rates, excluding disability.)

Table 3

ASRS Contribution Rates (Excludes Disability)			
Fiscal Year	Rate ^{1/}	Fiscal Year	Rate ^{1/}
FY 1983	7.00	FY 2002	2.00
FY 1984	7.00	FY 2003	2.00
FY 1985	6.27	FY 2004	5.20
FY 1986	5.67	FY 2005	5.20
FY 1987	5.53	FY 2006	6.90
FY 1988	4.00	FY 2007	8.60
FY 1989	<u>2/</u> 4.78	FY 2008	9.10
FY 1990	<u>2/</u> 1.29	FY 2009	8.95
FY 1991	<u>2/</u> 3.37	FY 2010	9.00
FY 1992	<u>2/</u> 3.17	FY 2011	9.60
FY 1993	<u>2/</u> 3.10	FY 2012	10.50
FY 1994	<u>2/</u> 2.65	FY 2013	10.90
FY 1995	<u>2/</u> 3.26	FY 2014	11.30
FY 1996	3.36	FY 2015	11.48
FY 1997	3.20	FY 2016	11.35
FY 1998	3.05	FY 2017	11.34
FY 1999	2.85	FY 2018	11.34
FY 2000	2.17	FY 2019	11.64
FY 2001	2.17		

- ^{1/} As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.
- ^{2/} Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

PSPRS

The PSPRS system consists of numerous state and local subgroups, each with its own contribution rate (see *Table 4*).

The General Fund cost associated with PSPRS in FY 2019 is estimated to be \$27.6 million and the Total State Funds cost is \$101.2 million.

Most of the cost increase in the PSPRS system for the state groups is caused by a reduction in the system's assumed investment returns. Prior to the current valuation, the PSPRS Board had used a 7.5% investment return assumption. Beginning with the FY 2019 valuation, the PSPRS Board has adopted a 7.4% assumed rate of return. Because this increases the system's unfunded liability, it requires an increase in the PSPRS employer contribution rate. (Please see *Table 5* for reasons behind contribution rate changes.)

Retirement System	Employer				Employee		
	FY 2018		FY 2019		FY 2019		
	Tier 1 and 2	Tier 3 <u>1/</u>	Tier 1 and 2	Tier 3 <u>1/</u>	Tier 1	Tier 2	Tier 3 <u>1/</u>
<i>Public Safety Personnel Ret. System</i>							
Liquor License Investigators	97.00	83.40	86.34	83.40	7.65	11.65	9.68
Department of Public Safety <u>2/</u>	91.97	90.60	95.35	90.60	2.65	6.65	4.68
Northern Arizona University Police	58.75	60.23	62.43	60.23	7.65	11.65	9.68
University of Arizona Police	44.37	42.81	47.20	42.81	7.65	11.65	9.68
Arizona State University Police	39.99	37.09	42.06	37.09	7.65	11.65	9.68
Game and Fish Department	104.71	103.65	105.93	103.65	7.65	11.65	9.68
Attorney General Investigators	63.53	71.23	74.55	71.23	7.65	11.65	9.68
DEMA Firefighters	31.22	32.57	34.74	32.57	7.65	11.65	9.68
Parks Police	57.35	64.00	66.95	64.00	7.65	11.65	9.68
<i>Corrections Officer Ret. Plan</i>							
Corrections Officer - ADC	21.17	N/A	28.38	5.00	8.41	8.41	7.00
Corrections Officer - DJC	31.03	N/A	47.20	5.00	8.41	8.41	7.00
DPS Dispatchers <u>3/</u>	24.48	N/A	38.95	N/A	7.96	7.96	N/A
Probation Officers	23.34	N/A	28.36	N/A	8.41	8.41	9.90

1/ FY 2019 Tier 3 CORP rates reflect Defined Contribution Plan for ADC and DJC, only Probation Officers will be eligible for Defined Benefit in Tier 3. The probation officer Tier 3 employer rate is unavailable at this time.

2/ The displayed rates reflect that 5% of the DPS member contribution is paid by the state.

3/ Dispatchers hired after November 24, 2009 are ASRS members.

CORP

The General Fund cost associated with CORP is \$102.5 million in FY 2019 and the Total State Funds cost is \$107.2 million. While the cost increase in PSPRS is minimal, state costs for CORP in FY 2019 are expected to increase significantly.

The largest reason for the increase in CORP costs is the change in the plan's Permanent Benefit Increase (PBI) structure since the FY 2018 valuation. The FY 2018 valuation (which was published in November 2016) did not factor in the *Hall* decision. That prior valuation assumed that for current CORP employees, the state would be responsible for the limited PBI structure enacted by Laws 2011, Chapter 357. In certain years of poor funded status for the plan, this PBI was restricted or unavailable.

After the *Hall* decision, the state is now responsible for the more generous pre-Chapter 357 PBI structure for current CORP employees hired before August 2011.

This has increased projected future CORP liabilities in the FY 2019 actuarial valuation, thereby increasing FY 2019 employer contribution rates. (Please see Table 5 for reasons behind contribution rate changes.)

In response to the *Hall* decision, the Legislature enacted Laws 2017, Chapter 163. This legislation would replace the PBI structure for current CORP employees with annual retirement benefit increases based on the change in the Phoenix-Mesa Consumer Price Index, capped at 2%

	ASRS	PSPRS	CORP
FY 2018 Contribution Rate	11.50%	52.09%	20.98%
Asset (Gain)/Loss	0.30%	0.25%	0.16%
Payroll <u>2/</u>	0.00%	0.02%	-0.03%
Long Term Disability Rate Change	0.00%	N/A	N/A
Tier 2 Employee Benefits	0.00%	-0.20%	-0.15%
Permanent Benefit Increase Effect <u>3/</u>	0.00%	0.35%	-0.08%
Benefit Changes <u>4/</u>	N/A	-0.32%	7.41%
Assumption Changes <u>5/</u>	N/A	3.29%	0.61%
Amortization Method Change	N/A	-3.93%	N/A
Other	<u>0.00%</u>	<u>0.55%</u>	<u>-0.12%</u>
FY 2019 Contribution Rate	11.80%	52.10%	28.78%
Net Change	0.30%	0.01%	7.80%

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 2019, compared to an assumed PBI level of 2.0%, therefore the reduction in liabilities is reflected in a slightly decreased employer rate. PSPRS now uses a Cost of Living Adjustment, which is reflected in the valuation.

4/ CORP increase reflects benefit changes as a result of the *Hall* litigation, which were not included in the FY 2018 CORP valuation.

5/ Reflects change in the investment return assumption from 7.5% to 7.4%, thereby increasing the unfunded liabilities of the PSPRS managed plans and requiring a higher employer contribution rate.

annually. This change is conditional on voter approval of HCR 2032 in November 2018, which provides for amendments to the Arizona Constitution to authorize the PBI changes to CORP and EORP. (See the 2018 Session Legislation section for a discussion of EORP PBI changes.)

Due to this and other reasons, these CORP changes enacted in the 2017 Legislative Session are not included in the FY 2019 CORP valuation.

The CORP employer contribution rate has also increased due to the reduction in assumed investment returns by the PSPRS Board.

EORP and EODCRS System

The General Fund cost associated with EORP and the EODCRS in FY 2019 is estimated to be \$12.7 million and the Total State Funds cost is \$13.0 million. These amounts exclude court fees used to offset the cost of the system, as those fees are deposited directly into the EORP Fund.

As part of closing EORP and establishing the EODCRS, A.R.S. § 38-810 established a fixed employer contribution rate of 23.5% for members of both systems, effective January 1, 2014. Laws 2018, Chapter 343 requires the state to pay the actuarially required employer rate for EORP which is 61.5% for FY 2019. (Please see 2018 Session Legislation section for more information.)

For EODCRS members, 6.0% of the employer contribution rate is deposited into the individual employees' retirement investment account, with the remainder being deposited into the EORP Fund.

While the enacted budget included funding for the FY 2019 EORP rate increase, cost projections for the change in the contribution rate, which utilized data provided by PSPRS, understated the fiscal impact. The statewide allocation for General Fund EORP costs was \$4,727,100 in the budget, however, the actual General Fund cost of the adjustment is now estimated to be \$5,015,000.

UORP

The General Fund cost associated with UORP in FY 2019 is estimated to be \$15.3 million and the Total State Funds cost is \$70.1 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 2019.

2018 Session Legislation

The retirement systems were affected by legislation relating to the following issues in the 2018 Regular Session:

EORP Cost of Living Adjustment

Laws 2018, Chapter 140 replaces the Permanent Benefit Increase (PBI) retired members of EORP receive 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 EORP members. As a result, the Legislature adopted HCR 2032, 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 140. The ballot measure will authorize both the CORP and EORP PBI changes and will appear on the November 2018 ballot.

Based on historical investment return data, during the annual valuation process PSPRS actuaries currently assume the existing PBI structure will generate average benefit increases of approximately 3% per year. Replacing the PBI with a COLA adjustment which cannot exceed 2% in any year will reduce the overall level of future EORP liabilities.

EORP Contribution Rate Change

Laws 2018, Chapter 343 require employers in EORP to pay the actuarially required contribution for the EORP Defined Benefit Plan. In *Fields v Elected Officials' Retirement Plan*, colloquially known as *Fields 2*, the Maricopa County Superior Court found the statute that fixed EORP employer contributions at 23.5% to be unconstitutional. The judge ordered EORP employers, including the state, to begin paying the actuarially required contribution rate into the system beginning in FY 2019. Rather than appeal the ruling, the Legislature passed legislation to codify the court's ruling.

Additionally, Chapter 343 requires EORP to set the amortization time period to between 20 and 30 years.

PSPRS Pension Funding Policies

Laws 2018, Chapter 112 requires each PSPRS governing body (such as a city council or board of supervisors) to annually adopt a pension funding policy for employees hired before July 1, 2017. The policy must include: 1) how to maintain stability within the system; 2) how the body intends to meet the pension plans funding requirements;

and 3) a targeted funded status and the timeline to meet this target. The plan must be posted on the bodies' website when adopted.

EORP County Court Fee Increase

Laws 2018, Chapter 317 increases base fees charged by Superior and Justice of the Peace Courts and redistributes the revenue to allow for a new 6% distribution to the EORP Fund to fund a portion of the employer contribution rate costs. It is estimated to increase revenue by about \$2.3 million, of which about \$1.5 million will come from increased Superior Court fees and \$800,000 will come from increased Justice of the Peace fees.

Because Chapter 317 increases the overall level of court fees, existing court fee distributions are held harmless from the creation of the new EORP distribution.

PSPRS System Omnibus

Laws 2018, Chapter 42 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 other changes including allowing an employer to fully vest in a PSPRS Defined Contribution Plan if they qualify for an accidental or disability pension.

Additionally, the bill allows a CORP 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. A similar change was made in 2017 for PSPRS members.

Finally, the bill allows a member to withdraw money from their reverse Deferred Retirement Option Plan (DROP) account and transfer it to an eligible retirement plan.

Actuarial Reporting Requirement

The FY 2019 Budget Procedures Budget Reconciliation Bill (Laws 2018, Chapter 279) requires ASRS and the PSPRS system to report the actuarially required employer contribution rates to JLBC Staff by December 1 of each year. Previously the deadlines for these reports were December 15 or December 31.

Funded Status

As of June 30, 2017, there were 635,542 active, inactive, retired, and DROP members enrolled in ASRS, PSPRS, CORP, and EORP. Most employees (91%) are enrolled in ASRS. (Please see Table 6 for more information.)

Table 6 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 6 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:

- 72.4% for ASRS;
- 43.9% for PSPRS;
- 48.1% for CORP; and
- 29.4% for EORP.

The above percentages exclude the retiree health portion of the pension plan.

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. (See Table 7 for more information.)

Retirement System Summary

Recent court rulings, as well as changes passed by the Legislature, have resulted in various tiers of benefits and contribution rates for both employers and employees. Table 8 shows information on each retirement system and employer tier.

Membership	ASRS			PSPRS			CORP			EORP		
	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019
Active (working and contributing)	204,162	206,055	18,706	19,010	13,846	13,958	694	600				
State Active Members	26,208	25,950	1,403	1,425	8,344	8,329	97	89				
Other Active Members <u>1/</u>	177,954	180,105	17,303	17,585	5,502	5,629	597	511				
Inactive	222,260	228,490	1,996	2,113	2,792	2,942	163	162				
Retired Members, Disabled and Survivor Beneficiaries	139,823	142,117	11,863	12,399	4,785	5,091	1,123	1,196				
Deferred Retirement Option Plan	N/A	N/A	1,365	1,409	N/A	N/A	N/A	N/A				
Total	566,245	576,662	33,930	34,931	21,423	21,991	1,980	1,958				
Funding Status (dollar values in millions) <u>2/</u>	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017
Market Value of Assets	\$35,761	\$37,783	\$6,554	\$6,841	\$1,678	\$1,742	\$315	\$298				
Total Actuarial Liability	\$46,105	\$52,189	\$14,249	\$15,579	\$2,931	\$3,624	\$838	\$1,012				
Unfunded Actuarial Liability <u>3/</u>	\$10,344	\$14,406	\$7,695	\$8,738	\$1,253	\$1,882	\$523	\$714				
Funded Status <u>3/</u>	77.6%	72.4%	46.0%	43.9%	57.3%	48.1%	37.6%	29.4%				

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 7

Arizona Public Retirement System Contribution Rate Historical and Trend Data

	Actual										Projected					
	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	FY 2027
ASRS																
Employer	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.50%	11.80%	11.82%	11.82%	11.82%	10.76%	10.79%	10.75%	10.63%	10.51%
Employee	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.50%	11.80%	11.82%	11.82%	11.82%	10.76%	10.79%	10.75%	10.63%	10.51%
Total 1/	21.48%	22.28%	23.08%	23.20%	22.94%	22.96%	23.00%	23.60%	23.64%	23.64%	23.64%	21.52%	21.58%	21.50%	21.26%	21.02%
PSPRS																
Employer <u>2/4/5/</u>	22.68%	27.18%	30.44%	32.54%	41.37%	42.61%	52.09%	52.10%	52.17%	51.79%	51.74%	51.86%	51.85%	51.57%	51.48%	51.37%
Employee <u>4/</u>																
-Tier 1	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
-Tier 2	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%
Total Tier 1	30.33%	34.83%	38.09%	40.19%	49.02%	50.26%	59.74%	59.75%	59.82%	59.44%	59.39%	59.51%	59.50%	59.22%	59.13%	59.02%
Total Tier 2	34.33%	38.83%	42.09%	44.19%	53.02%	54.26%	63.74%	63.75%	63.82%	63.44%	63.39%	63.51%	63.50%	63.22%	63.13%	63.02%
CORP																
Employer <u>2/3/4/</u>	9.50%	11.31%	13.68%	14.46%	18.21%	18.71%	20.98%	28.78%	28.77%	28.53%	28.36%	28.32%	28.21%	27.90%	27.70%	27.52%
Employee <u>4/5/</u>	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%	8.41%
Total	17.90%	19.71%	22.08%	22.86%	26.62%	27.12%	29.39%	37.19%	37.18%	36.94%	36.77%	36.73%	36.62%	36.31%	36.11%	35.93%
EORP																
Employer <u>4/</u>	17.96%	20.87%	23.50%	23.50%	23.50%	23.50%	23.50%	61.50%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employee <u>4/</u>																
-Tier 1	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
-Tier 2	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%	13.00%
Total Tier 1	24.96%	27.87%	30.50%	30.50%	30.50%	30.50%	30.50%	68.50%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Tier 2	29.46%	32.37%	36.50%	36.50%	36.50%	36.50%	36.50%	74.50%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A=Not Available																
<u>1/</u> The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.																
<u>2/</u> The employer contribution rate displayed for years FY 2019 through FY 2027 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%).																
<u>3/</u> The employer contribution rate displayed for all years excludes the contribution rate associated with supplemental long term disability insurance (in FY 2019, that rate is 0.32%).																
<u>4/</u> PSPRS, CORP and EORP projected employer and employee contribution rates reflect those published in the FY 2019 actuarial valuations. These rates reflect rulings in the Fields v Elected Official's Retirement Plan and Hall v Elected Official's Retirement Plan litigation but not the CORP changes (Laws 2017, Chapter 163) as those are conditional on the passage of HCR 2032 in November 2018. PSPRS employee rates from FY 2012 to FY 2017 reflect refunds given to PSPRS members.																
<u>5/</u> Projections for Tier 3 members were not included in the most recent PSPRS actuarial valuation for PSPRS and CORP. The contribution rates displayed only reflect an aggregate rate for Tier 1 and Tier 2.																

State Retirement Plan Summary										
	PSPRS			CORP			EORP			ASRS
	Tier 1 Before 1/1/12	Tier 2 1/1/12 thru 7/1/17	Tier 3/DC After 7/1/17	Tier 1 Before 1/1/12	Tier 2 1/1/12 thru 7/1/18	Tier 3/DC2/ After 7/1/18	Tier 1 Before 1/1/12	Tier 2 1/1/12 thru 1/1/14	DC Plan After 1/1/14	DB Plan Present
Hire Date	None	52.5	55; 52.5 with reduced pension	25 years of Service with no age or; years of Service and Age must equal 80	52.5	7/1/18	None	62		Years of Service and Age must equal 80
Normal Retirement Age	None	52.5	55; 52.5 with reduced pension	25 years of Service with no age or; years of Service and Age must equal 80	52.5	7/1/18	None	62		Years of Service and Age must equal 80
Minimum Years of Service	20 years; 15 years if aged 62 or older	15 years	15 years	years of Service and Age must equal 80	25 years		20 years	10 years		
Multiplier	50%+ <20 years: -4.00% 20 to <25 years: 2.00% 25+ years: 2.50%	62.5%+ <25 years: -4.00% 25+ years: 2.50% May use Tier 3 multiplier if better	15 to <17 years: 1.50% 17 to <19 years: 1.75% 19 to <22 years: 2.00% 22 to <25 years: 2.25% 25+ years: 2.50%	50%+ 20+ years: 2.50% If 80 point rule is used for hires prior to 8/9/2001: Average Salary X years of service X 2.5%	62.5%+ 25+ years: 2.50% (Max 7 years) If less than 25 years: Avg. Salary X Yrs of svc X 2.5%		4% of average salary x years of service	3% of average salary x years of service		<20 years: 2.10% 20 to <25 years: 2.15% 25 to <30 years: 2.20% 30+ years: 2.30%
PBI or COLA1/	COLA based on Phoenix CPI, not to exceed 2%	COLA based on Phoenix CPI, not to exceed 2%	COLA eligible after 7 years or age 60; COLA dependent on plan funded status	COLA based on Phoenix CPI, not to exceed 2%	COLA based on Phoenix CPI, not to exceed 2%	Not Applicable	COLA based on Phoenix CPI, not to exceed 2%	COLA based on Phoenix CPI, not to exceed 2%	Not Applicable	PBI if fund exceeds growth estimate for 10 years, only for members hired before 9/13/13.
Benefit Cap	Adjusted by IRS	Adjusted by IRS	\$110,000	Adjusted by IRS	Adjusted by IRS		Adjusted by IRS	Adjusted by IRS		Adjusted by IRS
Normal Cost Split	Set Employee Rate (Employers pay remaining)	Set Employee Rate (Employers pay remaining)	50/50; Employer Pays Legacy Cost Balance	Set Employee Rate (Employers pay remaining)	Set Employee Rate (Employers pay remaining)		Set Employee Rate (Employers pay remaining)	Set Employee Rate (Employers pay remaining)		50/50
Assumed Rate of Return	7.40%	7.40%	7.40%	7.40%	7.40%		7.40%	7.40%		7.50%
Employee Rate	7.65%	11.65%	9.85% DC: 9.00%	8.41%	8.41%	7.00%	7.00%	13.00%	8.00%	11.80%
Aggregate Employer Rate	52.10%	52.10%	DB 47.09% (Normal+Legacy Costs) DC: 9.00%+Legacy Costs	28.78%	28.78%	5.00%	61.50%	61.50%	61.50% to employer account)	11.80%

1/ CORP and EORP COLA for Tier 1 and 2 dependent upon November 2018 election outlined in HCR 2032, current beneficiaries still receive a PBI.

2/ CORP reforms include a Tier 3 Defined Benefit plan, however essentially all state workers in CORP would only be eligible for the Defined Contribution Plan.

**GENERAL PROVISIONS OF THE
GENERAL APPROPRIATION ACT
AND OTHER OVERALL ISSUES**

GENERAL APPROPRIATION ACT BUDGET GENERAL PROVISIONS

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GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) provides direction regarding 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 145 of the General Appropriation Act makes statewide adjustments totaling \$19,910,500 from the General Fund and \$14,418,500 from Other Appropriated Funds in FY 2019 for changes in 6 areas:

- **Employer Health Insurance Contribution:** \$10,000,000 General Fund and \$10,000,000 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.)*
- **Information Technology (IT) Pro Rata Adjustments:** \$686,300 General Fund and \$500,000 Other Appropriated Funds for adjustments to IT pro rata adjustments. *(Please see Information Technology Planning below for more details.)*
- **Agency Rent Adjustments:** \$(501,000) General Fund and \$(981,500) Other Appropriated Funds for adjustments associated with relocation to and within state-owned and lease-purchase buildings. *(Please see Building Payments below for more details.)*
- **State Building Rent Increases:** \$3,265,500 General Fund and \$1,700,000 Other Appropriated Funds for rental rate increases at state-owned buildings. *(Please see Building Payments below for more details.)*
- **Retirement Adjustments:** \$1,732,500 General Fund and \$3,000,000 Other Appropriated Funds for retirement contribution rate adjustments. *(Please see State Retirement Systems below for more details.)*
- **Elected Officials Retirement Adjustments:** \$4,727,200 General Fund and \$200,000 Other Appropriated Funds for elected officials' retirement contribution rate adjustments. *(Please see State Retirement Systems below for more details.)*

Expenditure Reporting — Section 147 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 148 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 the Arizona Department of Administration (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 2019 report by October 1, 2019 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 149 continues to state that by October 1, 2018 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, 2018.

Transfer Authority — Section 150 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 151 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2018 General Fund ending balance by September 15, 2018. Based on this information, JLBC Staff shall report to JLBC by October 15, 2018 as to whether FY 2019's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Section 151

states the revenues are forecasted to be \$10,025,800,000 for FY 2018 and \$10,625,300,000 for FY 2019 (these figures are now estimated at \$10,025,812,400 and \$10,625,525,100 to reflect technical adjustments). While both figures include one-time revenues, the FY 2018 figure also includes the beginning balance.

Section 151 also provides revenue and expenditure estimates for FY 2020 and FY 2021 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 2020 and FY 2021 estimates.)*

Expenditure Authority — Section 153 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 154 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 2019 budget reflects the adoption of technical assumptions.

These technical assumptions are incorporated into each agency’s individual appropriation in the FY 2019 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 2018 plan year through June 30, 2018 are shown in *Table 1*. The FY 2019 budget included a total appropriated funds increase of \$20,000,000 for a one-time adjustment in employer premiums, a decrease from the one-time FY 2018 total appropriated funds increase of \$50,000,000. Rates for the upcoming CY 2019 plan year have not yet been released.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan.

Table 1		
Health Insurance		
State Employee and Employer Monthly Contributions		
Calendar Year 2018 through June 30, 2018		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$ 44.00	\$ 619.42
Employee Plus One Adult	130.90	1,272.67
Employee Plus One Child	111.10	826.67
Family	243.10	1,394.33
<u>Preferred Provider Organization (PPO)</u>		
Employee	112.20	629.58
Employee Plus One Adult	236.50	1,331.25
Employee Plus One Child	158.40	890.83
Family	276.10	1,553.08
<u>Health Spending Account (HSA) Option</u>		
Employee	22.00	479.00 ^{1/}
Employee Plus One Adult	66.00	988.33 ^{1/}
Employee Plus One Child	56.10	687.67 ^{1/}
Family	122.10	1,087.42 ^{1/}

^{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 2018**

	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>DHMO</u>		
Employee	\$3.56	\$4.96
Employee + 1 Adult	7.12	9.92
Employee + 1 Child	6.67	9.92
Family	11.84	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

Employee and employer premiums for the CY 2018 plan year are shown in *Table 2*. The FY 2019 budget did not make assumptions regarding employer premiums for the plan year starting January 1, 2019; rates for the upcoming plan year, however, have not yet been released.

(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 2019. 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 2018 rate.

Unemployment Insurance - 0.10% of Personal Services for each agency, unchanged from the FY 2018 rate.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2018 rate. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)
- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Disability Insurance - For Arizona State Retirement System (ASRS) employees, the employer pays 0.16% of Personal Services for disability insurance, unchanged from the FY 2018 rate. The employee rate will also remain at 0.16%.

Employer rates in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP) vary depending on whether the employee is participating in the defined benefit plan or defined contribution plans. For PSPRS defined-benefit employees, the employer-only disability insurance rate will decrease to 2.14% in FY 2018, a decrease of (0.19)% from the FY 2018 rate of 2.33%; the rate for defined-contribution employees will be 1.51%. For CORP defined-benefit employees, the employer-only rate is 0.32%, increased from the FY 2018 rate of 0.28%; the rate for defined-contribution employees will be 1.40%.

Information Technology Planning - 0.30% of Personal Services for each agency, an increase of 0.10% from the FY 2018 rate as authorized in the FY 2019 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 279). The government information technology review function in ADOA's budget is funded from an

Table 3

FY 2019 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 (ASRS)	0.16%
Disability (PSPRS Defined Benefit)	2.14%
Disability (PSPRS Defined Contribution)	1.51%
Disability (CORP Defined Benefit)	0.32%
Disability (CORP Defined Contribution)	1.40%
Information Technology Planning	0.30%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$128,700)	6.20%
Medicare (no salary cap)	1.45%

Retirement System

1/

1/ See Consolidated Retirement Report section for contribution rates.

assessment on the payroll of all state agencies except the Universities. *(Please refer to Statewide Adjustments above and the Arizona Department of Administration narrative for more details.)*

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 2018 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Workers' Compensation - The rates calculated by ADOA vary by individual agency and are unchanged from the FY 2018 workers' compensation rates. ADOA estimates the average statewide rate is 0.78% in FY 2019. 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 \$128,700 of an employee's salary, an increase from the previous maximum of \$127,500. The rate is unchanged from FY 2018.

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 2018. 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, PSPRS, 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 2019 rates as determined by the state's retirement systems have changed from the FY 2018 rates. *(Please see the Consolidated Retirement Report for more information.)*

The FY 2019 budget adds a total of \$32,209,700 in appropriated funding for retirement. This amount is for increased costs in employer retirement contributions in 3 specific agencies, primarily for non-ASRS rate changes, appropriated within their respective budgets:

- \$26,506,600 GF and \$54,600 OF for the Arizona Department of Corrections (ADC)
- \$2,139,000 GF and \$108,100 OF for the Department of Juvenile Corrections (DJC)
- \$189,300 GF and \$3,212,100 OF for the Department of Public Safety (DPS)

These amounts are in addition to the \$4,732,500 and \$4,927,200 statewide adjustments for state agency retirement and elected officials' retirement costs. *(Please see the ADC, DJC, and DPS narratives and Statewide Adjustments above for more details. 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 are unchanged from the FY 2018 rates. *(Please see the Risk Management Charges table following this section for more details on overall charges.)*

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 146 outlines \$1,798,500 in charges to selected state agencies for Attorney General services, unchanged from the FY 2018 amount. *(Please see the Attorney General narrative for details.)*

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges for both state-owned and privately-owned space, lease-purchase payments, and privatized lease-to-own (PLTO) payments for certain buildings.

The FY 2019 Budget Procedures BRB authorizes an increase in rent charges in state-owned office space in FY 2019 to \$16.08/square foot from the FY 2018 rate of \$13.08/square foot, with the charge for state-owned storage space increasing to \$5.79/square foot from \$4.74/square foot. These rates are based upon usable square feet. The budget includes \$5,365,500 in total appropriated funds for this adjustment. *(Please see the ADOA Capital Outlay section for more details.)*

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 2019 for FY 2018 obligations. Agencies are permitted to make “administrative adjustments” for expenditures obligated in FY 2018 but for which the state was unbilled until FY 2019. 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 2018 total of \$100,000,000.

The budgeted FY 2018 estimate of \$100,000,000 is also unchanged from the originally-budgeted administrative adjustment total.

Reversionments — The budget assumes that state agencies will revert \$(145,000,000) of FY 2019 appropriations back to the General Fund because the agencies will not spend their entire appropriation. This amount is an increase of \$4,317,500 from the originally-budgeted FY 2018 total of \$(140,682,500).

The final budgeted FY 2018 estimate is \$(169,988,800), compared to the originally-budgeted FY 2018 reversionment total of \$(140,682,500). The \$29,306,300 increase results from expected one-time caseload-related surpluses in Department of Economic Security (DES) Developmental Disabilities (DD) and AHCCCS caseloads:

- \$3,000,000 for DES DD
- \$26,306,300 for AHCCCS

Actual reversionments associated with caseload savings could be higher than shown above. *(Please see the DES and AHCCCS narratives for details on these savings.)*

In addition to the standard reversionments, the original FY 2018 budget assumed that the budget would produce \$(10,000,000) of statewide General Fund efficiency savings, which effectively would have been recorded as additional reversionments. These savings were not generated, requiring a decrease of \$10,000,000 in total reversionments.

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 2009
(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 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>1/</u>	July 1	\$(33,464,400)	-2.30% <u>2/</u>	-2.75% <u>2/</u>	\$0	NA	\$0	
FY 2012	\$(3,390,700) <u>3/</u>	July 1	\$(3,390,700)	-0- <u>3/</u>	-0-	\$0	NA	\$0	
FY 2013	\$16,633,400 <u>4/</u>	Sept 29	\$23,500,000	5.00% <u>4/</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>5/</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>6/7/</u>	
FY 2018	\$0	NA	\$0	0.00%	-0-	\$97,700	January 1	\$195,300 <u>8/</u>	
FY 2019	\$0	NA	\$0	0.00%	-0-	\$97,600	January 1	\$0 <u>9/</u>	

- 1/ 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.
- 2/ 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.
- 3/ 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.
- 4/ 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.
- 5/ Funds a 2.0% pay increase for all employees at the Arizona Department of Public Safety (DPS).
- 6/ Funds a 3.0% pay increase for all sworn officers and civilian staff within the Highway Patrol division at DPS, effective July 1, 2016.
- 7/ 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.
- 8/ 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.
- 9/ Funds the annualization of the second-year 1.5% pay increase for all Supreme Court, Court of Appeals, and Superior Court Justices. The second year pay raise became effective January 1, 2018. Annual cost of \$195,300 reflected in FY 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 2018 GF 1/ JLBC Baseline	FY 2018 Changes	FY 2018 GF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 GF Enacted Budget
OPERATING SPENDING CHANGES						
DOA - Arizona Department of Administration	10,365,300		10,365,300			7,939,100
DOA - Statewide Adjustments				(100,800)	(154,700)	
DOA - GTO Funding					(1,000,000)	
DOA - AZ Net Contract Savings					(45,000)	
DOA - Utility Savings					(625,700)	
DOA - Efficiency Savings					(500,000)	
APF - Automation Projects Fund/ADOA	12,300,000		12,300,000			5,000,000
APF - Remove ADE Automation (One-Time)				(7,300,000)		
APF - Shift DCS Automation from DCS Agency Budget				(5,000,000)	5,000,000	
OAH - Office of Administrative Hearings	870,900		870,900			868,900
OAH - Statewide Adjustments				(10,400)	(4,900)	
OAH - 1740 W Adams Relocation					13,300	
AAM - Commission of African-American Affairs	125,800		125,800			127,200
AAM - Statewide Adjustments				(800)	2,200	
AGR - Department of Agriculture	9,563,700		9,604,000			9,640,000
AGR - Statewide Adjustments				(146,400)	158,200	
AGR - Remove One-time Equipment				(61,000)		
AGR - Livestock Inspector Salary Increase					200,000	
AGR - Salt River Horse Management		40,300			50,500	
AGR - Efficiency Savings					(125,000)	
AGR - Industrial Hemp Licensing (Separate Bill)					FY 20 Funding	
AXS - AHCCCS	1,775,264,100		1,785,264,100			1,777,093,500
AXS - Statewide Adjustments				(396,800)	277,800	
AXS - Formula Changes				81,963,200	(65,568,600)	
AXS - Other Adjustments					20,703,700	
AXS - Funding Shift to DHS					(1,200,000)	
AXS - CRS Health Services to DES					(15,212,700)	
AXS - DD Behavioral Health Services Transfer to DES				(17,095,500)	17,095,500	
AXS - Substance Use Disorder Services Fund (1st S.S., Ch. 1)		10,000,000				
AXS - American Indian Health Program Admin Shift					(545,300)	
AXS - American Indian Health Program Admin Staffing					347,700	
AXS - Reallocate Tobacco Funds					(35,154,400)	
AXS - End Prior Quarter Coverage					(2,511,300)	
AXS - 2.5% Hospital Provider Rate Increase					9,853,800	
AXS - Behavioral Health in Schools					3,000,000	
AXS - Skilled Nursing Provider Rate Increase					2,727,900	
AXS - Increase Critical Access Hospital Funding					1,800,000	
AXS - Eliminate County DUC Pool Payments					2,646,200	
AXS - Reduce BHS Out of Network Usage					(1,001,800)	
AXS - Suicide Prevention Coordinator					100,000	
ATT - Attorney General	26,344,200		26,344,200			25,940,300
ATT - Statewide Adjustments				(275,700)	410,100	
ATT - Rent Adjustment					(638,300)	
ATT - Child Advocacy Fund Deposit					100,000	
CHA - State Board for Charter Schools	1,200,600		1,200,600			1,209,800
CHA - Statewide Adjustments				(15,400)	24,600	
DCS - Department of Child Safety	379,790,800		379,790,800			375,838,700
DCS - Statewide Adjustments				(416,000)	283,900	
DCS - Adoption Services					1,180,000	
DCS - Lower TANF Caseload/Fund Shift					(5,000,000)	
DCS - Shift DCS Automation to DCS Agency Budget				5,000,000	(5,000,000)	
ACA - Arizona Commerce Authority	21,800,000		21,800,000			21,800,000
ACA - Reduce Competes Fund Deposit					Begin in FY 20	
CCO - Arizona Community Colleges	55,086,500		55,086,500			57,205,500
CCO - Formula Changes				1,663,400		
CCO - Tribal Community College Funding				200,000		
CCO - Remove One-time Gila CC Workforce Development Funding				(50,000)		
CCO - Rural County Allocation Adjustment					305,600	
COR - Corporation Commission	621,500		621,500			814,600
COR - Statewide Adjustments				(9,900)	6,400	
COR - Railway Safety Inspectors - 2 FTE (One-time) (Ch. 333)					196,600	
ADC - Department of Corrections	1,067,624,800		1,067,641,400			1,099,670,000
ADC - Statewide Adjustments				(12,319,800)	5,668,800	
ADC - Named Claimants (Ch. 215)		16,600				
ADC - Health Care Adjustment					15,000,000	

	FY 2018 GF 1/ JLBC Baseline	FY 2018 Changes	FY 2018 GF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 GF Enacted Budget
ADC - Retirement Adjustment					26,506,600	
ADC - Private Prison Capacity Cap					(2,810,400)	
CF - County Funding	15,650,700		15,650,700			20,566,200
CF - DJC Offset (One-time)				(8,000,000)	11,260,000	
CF - \$550k Distribution to Mohave/Yavapai/Pinal				(1,650,200)	1,650,200	
CF - Partial EORP Cost Offset					1,655,500	
SDB - Arizona State Schools for the Deaf and the Blind	21,932,000		21,932,000			21,659,300
SDB - Statewide Adjustments				(553,900)	281,200	
OEC - Office of Economic Opportunity	484,100		484,100			488,800
OEC - Statewide Adjustments					4,700	
DES - Department of Economic Security	586,110,300		586,110,300			650,936,900
DES - Statewide Adjustments				(558,900)	849,000	
DES - DD Caseload/Inflation Funding				37,949,600		
DES - CRS Health Services From AHCCCS					15,212,700	
DES - DD Behavioral Health Services Transfer from AHCCCS				17,095,500	(17,095,500)	
DES - DD Room and Board				6,400,000		
DES - Targeted Case Management Program Costs				2,939,000	(539,000)	
DES - Remove One-Time Additional Prop 206 Funding				(10,000,000)		
DES - Remove One-Time DD Room and Board Funding				(2,000,000)		
DES - One-Time Food Bank					1,000,000	
DES - One-Time Additional Prop 206 Funding					11,000,000	
DES - One-Time DD Room and Board Funding					2,000,000	
DES - Skilled Nursing Provider Rate Increase (DD Portion)					174,200	
DES - SNAP Benefits Match Program (One-time) (Ch. 334)					400,000	
BOE - State Board of Education	1,153,600		1,153,600			1,146,300
BOE - Statewide Adjustments				(10,800)	3,500	
ADE - Arizona Department of Education	4,226,958,400		4,227,258,400			4,704,652,000
ADE - Statewide Adjustments				(154,900)	214,200	
ADE - Base Adjustment				8,844,800		
ADE - Enrollment Growth				95,310,000	(11,300,000)	
ADE - Inflation				104,941,100		
ADE - New Construction				(53,142,800)		
ADE - Property Tax Statutory Changes				600,000		
ADE - Homeowner's Rebate				12,539,000		
ADE - Land Trust Distribution				(41,260,700)		
ADE - Special Education Fund Surplus				(8,000,000)		
ADE - 1.06% Teacher Salary Increase				33,107,500		
ADE - Results-Based Funding				11,000,000	(11,000,000)	
ADE - Early Literacy Funding				4,000,000		
ADE - Empowerment Scholarship Accounts				262,400		
ADE - Geographic Literacy Funding				(100,000)	100,000	
ADE - Remove One-Time Teacher Professional Development Pilot				(300,000)		
ADE - Mayer Unified School District Funding		300,000				
ADE - Increase Additional Assistance					100,000,000	
ADE - Teacher Pay Increase					176,200,000	
ADE - Prop 301 Bridge					64,100,000	
ADE - Other Agency Teacher Funding (ASDB/ADC/DJC)					1,585,700	
ADE - IT Funding					5,300,000	
ADE - Computer Science Pilot Program					1,000,000	
ADE - Fully Fund Large JTEDs					1,800,000	
ADE - Secondary Property Tax (1% Cap)					(18,952,700)	
ADE - Gifted Pupils					1,000,000	
EMA - Department of Emergency & Military Affairs	11,238,300		11,238,300			11,098,200
EMA - Statewide Adjustments				(43,200)	33,100	
EMA - Efficiency Savings					(130,000)	
DEQ - Department of Environmental Quality	2,823,600		2,823,600			0
DEQ - WQARF Fund Shift					(2,823,600)	
OEO - Governor's Office of Equal Opportunity	191,900		191,900			0
OEO - Statewide Adjustments				(2,800)		
OEO - Fund Shift to ADOA Personnel Division Fund					(189,100)	
EQU - State Board of Equalization	646,400		646,400			652,000
EQU - Statewide Adjustments				(3,400)	9,000	
EXE - Board of Executive Clemency	963,500		963,500			1,137,000
EXE - Statewide Adjustments				(10,900)	24,900	
EXE - Hearing Officer					33,600	
EXE - Board Member Pay Increase					125,900	
DFI - Dept of Financial Institutions	2,201,000		2,201,000			1,984,800
DFI - Statewide Adjustments				(47,800)	81,600	
DFI - Fund Shift					(200,000)	
DFI - Attorney General ISA Reallocation					(50,000)	

	FY 2018 GF 1/ JLBC Baseline	FY 2018 Changes	FY 2018 GF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 GF Enacted Budget
FOR - Department of Forestry and Fire Management	11,922,500		16,000,500			11,156,700
FOR - Statewide Adjustments				(67,200)	56,400	
FOR - Remove One-Time Post-Release Fire Crew Equipment				(465,100)		
FOR - Remove One-Time Fire Communication Equipment				(139,900)		
FOR - FY 2018 Fire Suppression Expenses		4,078,000				
FOR - Hazardous Vegetation Adjustment					650,000	
FOR - Fire Suppression Shift to Land Dept. Funds					(800,000)	
GAM - Department of Gaming	1,779,500		1,779,500			1,779,500
GOV - Office of the Governor	8,871,400		8,871,400			8,538,800
GOV - Statewide Adjustments				(71,500)	233,300	
GOV - Efficiency Savings					(44,400)	
GOV - Foster Youth Education Success Program				(1,500,000)	1,500,000	
GOV - Remove One-Time School Leadership Training Funding				(250,000)		
GOV - Remove One-Time Computer Science Initiative Funding				(200,000)		
OSP - Gov's Office of Strategic Planning & Budgeting	2,014,600		2,014,600			2,022,100
OSP - Statewide Adjustments				(20,600)	38,200	
OSP - Appropriation Savings					(10,100)	
DHS - Department of Health Services	87,669,400		87,670,300			89,931,200
DHS - Statewide Adjustments				(1,032,800)	334,800	
DHS - Funding Shift from AHCCCS				1,200,000		
DHS - Radiation Regulatory Agency Transfer to DHS				787,600		
DHS - Named Claimants (Ch. 215)		900				
DHS - Radiation Regulatory Fee Shift From General Fund					(773,400)	
DHS - Fund Shift AIDS Reporting/Surveillance SLI					(1,000,000)	
DHS - End County Payment State Hospital SVP					2,995,600	
DHS - Efficiency Savings					(250,000)	
AZH - Arizona Historical Society	3,179,800		3,179,800			3,195,000
AZH - Statewide Adjustments				(37,300)	22,500	
AZH - Grants Specialist					30,000	
PAZ - Prescott Historical Society	840,200		840,200			832,700
PAZ - Statewide Adjustments				(15,700)	8,200	
DOH - Department of Housing	830,000		830,000			0
DOH - Self-Funding for Manufactured Housing (Laws 2017, Ch. 335)				(830,000)		
INS - Department of Insurance	5,878,300		5,878,300			5,628,400
INS - Statewide Adjustments				(71,900)	11,500	
INS - Efficiency Savings					(189,500)	
SPA - Judiciary - Supreme Court	18,812,000		18,812,000			19,870,100
SPA - Statewide Adjustments				(330,600)	1,241,400	
SPA - 1.5% Judicial Pay Raise				10,300		
SPA - Risk Management Funding Shift				137,000		
COA - Judiciary - Court of Appeals	14,723,000		14,723,000			15,992,400
COA - Statewide Adjustments - Division I				(122,400)	942,200	
COA - Statewide Adjustments - Division II				(50,300)	468,800	
COA - 1.5% Judicial Pay Raise				31,100		
SUP - Judiciary - Superior Court	77,183,700		77,183,700			80,714,500
SUP - Statewide Adjustments					2,220,800	
SUP - 1.5% Judicial Pay Raise				56,200		
SUP - Maricopa County Court Ordered Removals				240,000		
SUP - Adult Standard Probation Growth					413,000	
SUP - Probation Salary Deficit					600,800	
DJC - Department of Juvenile Corrections	19,549,800		19,549,800			22,734,500
DJC - Statewide Adjustments				(394,100)	313,500	
DJC - Population Increase					2,126,300	
DJC - Retirement Adjustment					2,139,000	
DJC - Fund Shift					(1,000,000)	
LAN - State Land Department	12,365,900		12,815,000			11,733,400
LAN - Statewide Adjustments				(143,400)	261,800	
LAN - CAP Fees		449,100		449,100		
LAN - Efficiency Savings					(1,200,000)	
Legislature						
AUD - Auditor General	18,688,800		18,688,800			19,709,600
AUD - Statewide Adjustments				(249,800)	149,600	
AUD - Rent Adjustment					228,000	
AUD - Additional Special Audit Capacity					200,000	
AUD - Additional Staff					585,500	
AUD - Special Investigative Unit				107,500		

	FY 2018 GF 1/ JLBC Baseline	FY 2018 Changes	FY 2018 GF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 GF Enacted Budget
HOU - House of Representatives	13,419,100		13,419,100			13,835,000
HOU - Statewide Adjustments				(217,600)	633,500	
JLBC - Joint Legislative Budget Committee	2,513,800		2,513,800			2,504,800
JLBC - Statewide Adjustments				(25,500)	16,500	
LEG - Legislative Council	8,278,400		8,278,400			8,304,900
LEG - Statewide Adjustments				(63,000)	36,700	
LEG - Ombudsman Salary Increase/Rent Adjustment					52,800	
SEN - Senate	9,548,100		9,548,100			9,747,200
SEN - Statewide Adjustments				(139,600)	338,700	
MIN - State Mine Inspector	1,226,800		1,226,800			1,255,800
MIN - Statewide Adjustments				(14,300)	43,300	
NAV - Arizona Navigable Steam Adjudication Comm.	125,500		125,500			127,400
NAV - Statewide Adjustments				(1,500)	3,400	
POS - Commission for Postsecondary Education	1,881,800		1,881,800			1,646,800
POS - Remove College Readiness Funding					(235,000)	
DPS - Department of Public Safety	109,614,200		109,614,200			104,241,700
DPS - Statewide Adjustments				(959,600)	347,800	
DPS - Remove One-Time Sexual Assault Kit Testing				(1,200,000)		
DPS - GIITEM Funding				1,200,000	(1,200,000)	
DPS - Fund Shifts					(3,750,000)	
DPS - Retirement Adjustment					189,300	
PSP - Public Safety Personnel Retirement System	6,000,000		6,000,000			7,000,000
PSP - Prescott Fire Employer Group Deposit (One-Time)					1,000,000	
RAD - Radiation Regulatory Agency	787,600		787,600			0
RAD - Shift Agency to DHS				(787,600)		
REA - State Real Estate Department	3,028,000		3,028,000			2,911,700
REA - Statewide Adjustments				(33,100)	7,300	
REA - Efficiency Savings					(90,500)	
REV - Department of Revenue	31,291,300		31,333,700			31,063,800
REV - Statewide Adjustments				(783,600)	381,100	
REV - Named Claimants (Ch. 215)		42,400				
REV - Reduce Postage Costs					(425,000)	
REV - Rent Savings					(500,000)	
REV - Lump Sum Reduction					(500,000)	
REV - Additional Enforcement Staff (25 FTE)					2,000,000	
REV - Fund Shift					(400,000)	
SFB - School Facilities Board	292,286,600		302,286,600			274,700,300
SFB - Statewide Adjustments				(14,000)	34,000	
SFB - New School Construction (FY 17 Starts)				(23,078,600)		
SFB - New Construction (FY 18 Starts)				(25,940,000)		
SFB - New Construction (FY 19 Starts)				49,636,700		
SFB - Existing Debt Service Changes				(35,474,400)		
SFB - FY 18 One-time Building Renewal Grants		10,000,000		(17,167,900)		
SFB - New One-Time Building Renewal Grants					34,417,900	
SOS - Secretary of State	12,190,100		14,690,100			15,568,800
SOS - Statewide Adjustments				(126,900)	621,100	
SOS - CD 8 Special Election Funding (Ch. 2)		2,500,000				
SOS - Voter Registration Database					HAVA	
SOS - Restore Election Funding (2018 Primary and General Election)				3,384,500	OF - \$615k	
SOS - Remove One-Time Operating Funding				(500,000)		
TAX - State Board of Tax Appeals	268,300		279,400			280,400
TAX - Statewide Adjustments				(1,700)	2,700	
TAX - ERE Cost Increase		11,100			11,100	
TOU - Office of Tourism	7,112,000		7,112,000			7,112,000
DOT - Department of Transportation	50,500		50,500			65,000
DOT - Statewide Adjustments				(100)		
DOT - West Valley Transportation (One-time)					65,000	
DOT - Fund Shift					(50,400)	
TRE - State Treasurer	1,205,100		1,205,100			1,205,100
OTR - Governor's Office on Tribal Relations	58,000		58,000			60,900
OTR - Statewide Adjustments				(500)	3,400	
UNI - Universities						

	FY 2018 GF 1/ JLBC Baseline	FY 2018 Changes	FY 2018 GF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 GF Enacted Budget
UNI - Arizona Board of Regents	6,909,300		6,909,300			6,898,100
UNI - Statewide Adjustments				(22,100)	10,900	
UNI - ASU	320,259,000		320,259,000			328,775,800
UNI - Statewide Adjustments				(2,507,900)	1,244,100	
UNI - Refinance Adjustment				(2,300)		
UNI - One-time Operating/Capital Funding				(7,639,500)	4,245,000	
UNI - Arizona and Mexico Economic Development					250,000	
UNI - Freedom School					1,000,000	
UNI - 2017 Capital Infrastructure Funding				11,927,400		
UNI - Northern Arizona University	108,612,800		108,612,800			112,095,700
UNI - Statewide Adjustments				(56,900)	131,800	
UNI - Refinance Adjustment				(300)		
UNI - One-time Operating/Capital Funding				(3,202,800)	1,590,200	
UNI - Freedom School					500,000	
UNI - 2017 Capital Infrastructure Funding				4,520,900		
UNI - UA - Main Campus	199,600,900		199,600,900			208,836,400
UNI - Statewide Adjustments				(1,524,200)	1,199,200	
UNI - Refinance Adjustment				1,700		
UNI - One-time Operating/Capital Funding				(4,157,700)	2,164,800	
UNI - Freedom School					1,000,000	
UNI - 2017 Capital Infrastructure Funding				10,551,700		
UNI - UA - Health Sciences Center	69,437,700		69,437,700			68,897,700
UNI - Statewide Adjustments				(577,900)	37,900	
VSC - Department of Veterans' Services	6,115,800		6,115,800			6,120,600
VSC - Statewide Adjustments				(61,700)	41,500	
VCS - Hyperbaric Oxygen Therapy (Ch. 98) (One-time)					25,000	
WAT - Department of Water Resources	16,001,900		16,001,900			16,169,800
WAT - Statewide Adjustments				(147,700)	115,600	
WAT - Fund Shift					(300,000)	
WAT - Water Study (One-time)					100,000	
WAT - Water Protection Fund Deposit (One-Time)					400,000	
OTH - Other						
OTH - FY 18 Supplementals/Ex-Appropriations	(1,061,200)	1,061,200	0	1,061,200		0
OTH - Debt Service Payments	84,115,100		84,115,100	(3,100)		84,112,000
OTH - Phoenix Convention Center Debt Service	22,499,000		22,499,000	497,300		22,996,300
OTH - Rio Nuevo District	14,000,000		14,000,000			14,000,000
OTH - Unallocated IT Pro-Rata Charge Increase	0		0		500	500
OTH - Unallocated Retirement Rate Adjustment	0		0		150,500	150,500
OTH - Revert FY 2017 DCS Backlog Privatization Funding	0	(2,700,000)	(2,700,000)			0
OTH - Revert Prop 123 Special Election Monies	0	(2,962,600)	(2,962,600)			0
OTH - ADOT I-10 Project Reversion (Equipment Sales)	0	(230,000)	(230,000)			0
OTH - ADOT I-10 Project Reversion (VW Settlement)	0		0		(12,523,500)	(12,523,500)
OTH - Administrative Adjustments	100,000,000		100,000,000			100,000,000
OTH - Reversions	(140,682,500)	(29,306,300)	(169,988,800)		(4,317,500)	(145,000,000)
OTH - Unallocated HITF One-Time Employer Premium	15,800		15,800	(15,800)	32,400	32,400
TOTAL - OPERATING SPENDING CHANGES	9,822,329,700	(6,699,300)	9,815,630,400	227,638,600	334,533,600	10,384,501,900
CAPITAL SPENDING						
ADOA Building Renewal	5,700,000		5,700,000		(5,700,000)	0
Local HURF Transportation Funding	OF - \$30 M		OF - \$30 M			
DEMA - Tucson Readiness Center	0		0		3,759,000	3,759,000
DPS Modular Housing	0		0		1,200,000	1,200,000
TOTAL - CAPITAL SPENDING	5,700,000	0	5,700,000	0	(741,000)	4,959,000
TOTAL - ALL SPENDING	9,828,029,700	(6,699,300)	9,821,330,400	227,638,600	333,792,600	10,389,460,900
REVENUE CHANGES						
Ongoing Revenue						
REV - Ongoing Revenue	9,648,549,700	172,000,000	9,820,549,700	298,896,900	224,000,000	10,171,446,600
REV - Expand Tax Fraud Prevention to TPT	0		0		30,000,000	30,000,000
REV - Additional Revenue/Increased Enforcement Staff	0		0		25,000,000	25,000,000
REV - Eliminate Ongoing Judiciary Fund Transfers	0		0		(2,600,000)	(2,600,000)
REV - Increase Military Pension Exemption to \$3,500 (2-Yr Phase In)	0		0		Start in FY 20	Start in FY 20
REV - Cap Radiation Regulatory Fees Shift From General Fund	0		0		(773,400)	(773,400)
REV - Boxing/MMA Fees Shift From General Fund	0		0		(45,100)	(45,100)
REV - Liquor Revenue Loss From Agency Issues	0		0		(91,100)	(91,100)
REV - TPT Online Lodging Marketplace/Sales Suppression Software	0		0		10,000,000	10,000,000
REV - ADOT - HELP Fund (Highway Safety Fee Offset)	0		0		30,000,000	30,000,000
REV - ADOT - State Highway Fund VLT Transfer (Highway Safety Fee)	0		0		42,364,500	42,364,500
One-Time Revenue						
REV - Beginning Balance	150,871,000		150,871,000	(150,871,000)	204,482,000	204,482,000
REV - Tax Year 2017 IRC Conformity	0		0		(5,000,000)	(5,000,000)

	FY 2018 GF 1/ JLBC Baseline	FY 2018 Changes	FY 2018 GF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 GF Enacted Budget
Prior-Year Enacted Fund Transfers						
REV - Attorney General - Moody's Settlement	8,172,700		8,172,700	(8,172,700)		0
Newly-Enacted Fund Transfers						
REV - ADOA - Air Quality Fund	0	188,000	188,000		0	0
REV - ADOA - Employee Benefit Plan Fund	0	0	0		2,500,000	2,500,000
REV - ADOA - AFIS II Fund	0	0	0		772,300	772,300
REV - ADOA - Motor Pool Revolving Fund	0	0	0		255,500	255,500
REV - AHCCCS - IGA and ISA Fund	0	0	0		5,900,000	5,900,000
REV - AHCCCS - Hospital Loan Residency Program	0	900,000	900,000		0	0
REV - AHCCCS - Prescription Drug Rebate Fund	0	0	0		52,600,000	52,600,000
REV - Attorney General - VW Settlement Transfer	0	0	0		20,000,000	20,000,000
REV - Contractors - Recovery Fund	0	0	0		4,000,000	4,000,000
REV - Corp. Comm. - Pipeline Safety Revolving Fund	0	0	0		100,000	100,000
REV - Corrections - Corrections Fund	0	0	0		1,500,000	1,500,000
REV - Corrections - Building Renewal Fund	0	0	0		500,000	500,000
REV - Corrections - Special Services Fund	0	1,000,000	1,000,000		25,200	25,200
REV - Corrections - ACI Revolving Fund	0	0	0		1,500,000	1,500,000
REV - Corrections - Indirect Cost Recovery Fund	0	0	0		500,000	500,000
REV - Economic Opportunity - Operations Fund	0	0	0		2,200,000	2,200,000
REV - Economic Opportunity - Economic Development Fund	0	5,085,000	5,085,000		0	0
REV - Economic Opportunity - Greater AZ Development Authority	0	1,319,000	1,319,000		0	0
REV - Economic Opportunity - AFA Operating Fund	0	0	0		67,000	67,000
REV - Economic Opportunity - AZ IDA Fund	0	0	0		300,000	300,000
REV - DES - Special Admin Fund	0	0	0		11,000	11,000
REV - DEQ - Hazardous Waste Management Fund	0	1,500,000	1,500,000			0
REV - DEQ - Air Quality Fund	0	1,500,000	1,500,000			0
REV - DEQ - Air Quality Fund (Volkswagen Settlement)	0	0	0		993,900	993,900
REV - DEQ - Underground Storage Tank Revolving Fund	0	10,000,000	10,000,000		10,000,000	10,000,000
REV - DEQ - Recycling Fund	0	2,000,000	2,000,000			0
REV - DEQ - Centralized Monitoring Fund	0	500,000	500,000			0
REV - DEQ - Permit Administration Fund	0	3,000,000	3,000,000			0
REV - DEQ - Voluntary Vehicle Repair and Retrofit Program Fund	0	2,500,000	2,500,000			0
REV - DFI - Mortgage Recovery Fund	0	460,000	460,000			0
REV - DFI - Financial Services Fund	0	5,000,000	5,000,000			0
REV - DFI - Receivership Revolving Fund	0	50,000	50,000			0
REV - Game and Fish - Watercraft Licensing	0	1,000,000	1,000,000		1,500,000	1,500,000
REV - DHS - Health Service Licensing Fund	0	1,500,000	1,500,000		1,000,000	1,000,000
REV - DHS - BHS ISA Agreement Fund	0	3,100,000	3,100,000		0	0
REV - Housing - Housing Program Fund	0	0	0		2,000,000	2,000,000
REV - Housing - Housing Trust Fund	0	0	0		400,000	400,000
REV - Industrial Commission - Admin Fund	0	0	0		7,000,000	7,000,000
REV - Judiciary - Drug Treatment and Education Fund	0	0	0		2,000,000	2,000,000
REV - DPS - Public Safety Equipment Fund	0	0	0		22,000	22,000
REV - DPS - Fingerprint Clearance Card Fund	0	1,000,000	1,000,000			0
REV - DPS - Concealed Weapons Permit Fund	0	2,000,000	2,000,000		0	0
REV - DPS - Joint Fund (Volkswagen Settlement)	0	0	0		846,800	846,800
REV - RUCO - Revolving Fund	0	0	0		60,000	60,000
REV - ADOT - Economic Strength Project Fund	0	500,000	500,000		0	0
REV - ADOT - Vehicle Inspection and Title Enforcement Fund	0	2,000,000	2,000,000		1,128,000	1,128,000
REV - Water Resources - IGA/ISA Fund	0	117,000	117,000		0	0
REV - Water Resources - Indirect Cost Recovery Fund	0	0	0		1,000,000	1,000,000
TOTAL - REVENUE CHANGES 3/	9,807,593,400	218,219,000	10,025,812,400	139,853,200	678,018,600	10,625,465,200
ENDING BALANCE	(20,436,300)	224,918,300	204,482,000	(87,785,400)	344,226,000	236,004,300

1/ Represents original FY 2018 appropriations adjusted for revisions in the Universities (consolidate ASU into a single budget unit) and an increase in the estimated Rio Nuevo District distribution.

2/ Represents FY 2019 Baseline cost above FY 2018 Baseline.

3/ Represents all revenue changes, including fund transfers.

DETAILED LIST OF OTHER FUND CHANGES BY AGENCY

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
OPERATING SPENDING CHANGES						
SBA - State Board of Accountancy	2,042,200		2,042,200			2,037,900
SBA - Statewide Adjustments				(17,800)	13,500	
ACU - Acupuncture Board of Examiners	185,500		185,500			171,900
ACU - Statewide Adjustments					2,300	
ACU - Remove One-Time Rulemaking Funding				(10,000)		
ACU - Remove One-Time Leave Payout Funding				(13,200)		
ACU - E-Licensing Operating Costs					6,200	
ACU - Relocation to 1740 West Adams					1,100	
DOA - Arizona Department of Administration	187,518,000		203,342,900			194,938,400
DOA - Statewide Adjustments				(545,700)	71,100	
DOA - Federal Repayment		15,802,500				
DOA - Named Claimants (Ch. 215)		22,400				
DOA - Government Transformation Office				(1,000,000)	1,000,000	
DOA - One-Time Funding Office of Grants and Fed. Resources				(375,900)		
DOA - Central Services Bureau Expenditure Increase					186,600	
DOA - General Services Division Operating Increase					500,000	
DOA - IT Security Funding (IT Pro Rata Increase)					2,600,000	
DOA - Adjust Insurance Claims Related Expenditures					3,648,100	
DOA - Bolin Plaza Improvements					25,300	
DOA - Fund Project Management in Operating Budget					1,500,000	
DOA - Personnel Fund Shift to OEO					(189,100)	
APF - Automation Projects Fund/ADOA	55,761,900		55,761,900			23,125,100
APF - Remove One-time ADE Automation Funding				(7,300,000)		
APF - Remove Non-Project Management ASET Funding				(11,208,600)		
APF - DCS Automation				(11,100,000)	5,000,000	
APF - Remove One-Time IT Funding				(16,014,800)		
APF - DPS Microwave Backbone Funding (Subaccount)				(2,500,000)	1,250,000	
APF - DPS Criminal Justice Information System Funding (Subaccount)				(2,343,000)	2,806,200	
APF - DEQ e-Licensing Funding (Subaccount)				(3,200,000)	3,200,000	
APF - Beh Hlth Exam/ITAC Review (Subaccount)				(595,500)	450,000	
APF - DFI e-Licensing (Subaccount)					1,400,000	
APF - State Data Center Relocation					4,697,000	
APF - ADOA Procurement System					3,000,000	
APF - ASET e-Government (Websites)					500,000	
APF - Fund Project Management in Operating Budget					(1,500,000)	
APF - HRIS IT Update					821,900	
AGR - Department of Agriculture	1,716,500		1,716,500			1,720,200
AGR - Statewide Adjustments				(7,100)	10,800	
AXS - AHCCCS	361,527,400		361,527,400			328,044,500
AXS - Statewide Adjustments				(8,100)	6,800	
AXS - Formula Changes				(32,825,200)	(456,400)	
AXS - Remove Proposition 206 Report Funding				(200,000)		
ART - Arizona Commission on the Arts	1,500,000		1,500,000			2,000,000
ART - One-Time BSF Funding				(1,500,000)	2,000,000	
BAT - Board of Athletic Training	120,600		120,600			123,500
BAT - Statewide Adjustments				(1,500)	1,400	
BAT - E-Licensing Ongoing Costs					6,800	
BAT - Relocation to 1740 West Adams					(3,800)	
ATT - Attorney General	46,213,900		47,114,500			49,023,800
ATT - Statewide Adjustments				(394,200)	500,200	
ATT - Opioid Education/Prevention Community Grants (1st S.S. Ch. 1)		400,600				
ATT - Election Litigation		500,000				
ATT - Case Management IT System Upgrade					1,489,000	
ATT - Chase Settlement - '21 RICO Offset of \$1.4M					Yes	
ATT - Expand Consumer Protection Unit					961,300	
ATT - Secretary of State Litigation					500,000	
ATT - Rent Adjustment					(246,400)	
ATA - Automobile Theft Authority	5,301,400		5,301,400			5,308,900
ATA - Statewide Adjustments				(5,900)	13,400	
BAR - Board of Barbers	345,800		345,800			401,100
BAR - Statewide Adjustments				(4,000)	13,600	
BAR - E-Licensing Ongoing Costs					41,000	
BAR - Relocation to 1740 West Adams					4,700	
BHE - Board of Behavioral Health Examiners	1,777,800		1,777,800			1,772,300
BHE - Statewide Adjustments				(18,700)	95,600	
BHE - Relocation to 1740 West Adams					(82,400)	

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
DCS - Department of Child Safety	180,610,300		180,610,300			189,715,700
DCS - Statewide Adjustments					88,800	
DCS - Remove One-Time Litigation Support/Add New \$				(2,471,200)	3,770,000	
DCS - TANF Kinship Stipends Shift From DES				2,972,600	(2,972,600)	
DCS - Adoption Caseload (TANF)					2,717,800	
DCS - TANF Fund Shift from DES					5,000,000	
BCE - State Board of Chiropractic Examiners	455,100		455,100			429,700
BCE - Statewide Adjustments				(4,000)	22,800	
BCE - Relocation to 1740 West Adams					(44,200)	
ROC - Registrar of Contractors	12,268,400		12,268,400			12,300,100
ROC - Statewide Adjustments				(103,000)	134,700	
COR - Corporation Commission	26,652,400		26,652,400			26,965,900
COR - Statewide Adjustments				(326,800)	640,300	
ADC - Department of Corrections	51,553,200		51,553,200			53,963,100
ADC - Statewide Adjustments				(5,500)	3,800	
ADC - Inmate Education Expansion					1,372,100	
ADC - Substance Abuse Treatment Expansion					540,000	
ADC - Employment Center Expansion					444,900	
ADC - Retirement Adjustment					54,600	
COS - Board of Cosmetology	1,864,500		1,864,500			1,926,300
COS - Statewide Adjustments				(25,100)	123,800	
COS - One-Time Document Scanning					75,000	
COS - Relocation to 1740 West Adams					(111,900)	
CF - County Funding	0		0			500,000
CF - County Sheriff Reentry Planning Services (Ch. 342)					500,000	
JUS - Arizona Criminal Justice Commission	9,202,600		9,202,600			7,258,100
JUS - Statewide Adjustments				(7,200)	12,700	
JUS - Remove One-time Felony Pre-Trial Intervention Funding				(2,750,000)		
JUS - Criminal History Repository Upgrade					600,000	
JUS - Criminal Justice Statistics Pilot Program (Ch. 278)					200,000	
SDB - AZ State Schools for the Deaf and the Blind	11,878,700		11,878,700			13,607,900
SDB - Statewide Adjustments				(39,800)	37,800	
SDB - Enrollment Decline				(533,900)		
SDB - Base Level Increase				195,100		
SDB - Early Childhood Identification and Services (Ch. 291)					2,070,000	
HEA - Comm for the Deaf & the Hard of Hearing	4,622,600		4,622,600			4,613,500
HEA - Statewide Adjustments				(18,300)	9,200	
HEA - Remove One-Time Hearing Aid Assistance				(2,800)	2,800	
DEN - Board of Dental Examiners	1,229,900		1,229,900			1,300,500
DEN - Statewide Adjustments				(15,400)	49,700	
DEN - One-Time Document Scanning					87,800	
DEN - Relocation to 1740 West Adams					(51,500)	
DES - Department of Economic Security	294,107,700		294,107,700			290,774,900
DES - Statewide Adjustments				(662,700)	494,900	
DES - TANF Kinship Stipends Shift To DCS				(2,972,600)	2,972,600	
DES - Remove One-Time APS Funding (Health Lottery Fund)				(2,000,000)		
DES - Remove One-Time Aging Services/Add New \$				(700,000)	1,171,000	
DES - Cost-Effectiveness Study Client Services (Ch. 346)					1,100,000	
DES - DD Early Intervention Shortfall (One-Time)/Report					1,900,000	
DES - Shift \$2.7 M from TANF to CCDF					Yes	
DES - AFIS Charge Adjustment					364,000	
DES - TANF Cash Surplus					(5,000,000)	
ADE - Arizona Department of Education	254,458,700		254,458,700			291,154,100
ADE - Statewide Adjustments				(24,600)	48,200	
ADE - Land Trust Distribution				41,260,700	511,100	
ADE - Remove One-Time Rural Schools Distribution				(2,600,000)	0	
ADE - Navajo Code Writing (Ch. 290)					500,000	
ADE - Remove One-Time Broadband Funding				(3,000,000)		
EMA - Department of Emergency & Military Affairs	1,438,400		1,438,400			1,461,600
EMA - Nuclear Emergency Management Fund Increase				23,200		
DEQ - Department of Environmental Quality	80,222,400		80,222,400			82,063,500
DEQ - Statewide Adjustments				(299,200)	295,500	
DEQ - WQARF Funding (Ch. 280)				(6,536,900)	9,375,600	
DEQ - Backfill Air Quality w/ VW Settlement					(993,900)	
OEO - Governor's Office of Equal Opportunity	0		0			190,700

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
OEO - Statewide Adjustments					1,600	
OEO - Fund Shift General Fund to Personnel Fund					189,100	
COL - Arizona Exposition and State Fair Board	12,153,300		12,153,300			12,549,300
COL - Statewide Adjustments				(40,000)	24,400	
COL - Proposition 206 Minimum Wage Increase					411,600	
DFI - Dept of Financial Institutions	3,226,800		3,226,800			4,012,600
DFI - Statewide Adjustments				(23,300)	27,600	
DFI - Remove One-Time Equipment Funding				(6,000)		
DFI - New Mortgage Lending Examiners					358,300	
DFI - New Money Services Examiner					89,600	
DFI - New Financial Services Examiner					89,600	
DFI - Fund Shift General Fund to Financial Svcs Fund					200,000	
DFI - Attorney General ISA Reallocation					50,000	
EMB - Board of Funeral Directors and Embalmers	378,200		378,200			443,400
EMB - Statewide Adjustments				(4,900)	1,700	
EMB - E-Licensing Ongoing Costs					14,800	
EMB - One-Time Document Scanning					75,000	
EMB - Relocation to 1740 West Adams					2,600	
EMB - Remove One-Time E-Licensing					(24,000)	
FIS - Arizona Game and Fish Department	44,309,200		44,309,200			42,752,600
FIS - Statewide Adjustments				(349,200)	264,300	
FIS - Remove One-time Aquatic Invasive Species Funding				(285,000)		
FIS - Remove One-Time Game and Fish Trucks				(485,700)		
FIS - Remove One-Time Watercraft Safety Equipment				(701,000)		
FIS - Watercraft County Grant Shift to Operating					Yes/ILBC Review	
GAM - Department of Gaming	15,624,200		15,624,200			15,657,700
GAM - Statewide Adjustments				(55,500)	103,200	
GAM - One-Time Breeders' Award Fund Deposit				(250,000)	250,000	
GAM - Restore Gaming Funding				(768,400)	768,400	
GAM - Legal Counsel					(14,200)	
DHS - Department of Health Services	52,606,500		53,007,100			51,203,700
DHS - Statewide Adjustments				(344,900)	(562,100)	
DHS - Reduce ASH Fund (Shift of GF Monies From AHCCCS)				(1,200,000)	0	
DHS - Reduce ASH Fund (No County SVP)					(2,995,600)	
DHS - Remove One-time ASH Equipment Funding				(320,000)		
DHS - One-time Alzheimer's Research Funding (\$1 M in Baseline)				(1,000,000)	2,000,000	
DHS - Remove One-Time Public Health Emergency Funding				(500,000)		
DHS - Radiation Regulatory Agency Transfer to DHS				1,646,400	773,400	
DHS - Opioid Abuse Prevention Campaign (1st S.S. Ch. 1)		400,600				
DHS - Shift AIDS Reporting from GF to Disease Control					1,000,000	
DHS - Homeless Pregnant Women Services					100,000	
HOM - Board of Homeopathic & Integrated Medicine Examiners	89,000		89,000			90,700
HOM - Statewide Adjustments				(1,700)	2,400	
HOM - Relocation to 1740 West Adams					1,000	
DOH - Department of Housing	323,200		323,200			322,200
DOH - Statewide Adjustments				(4,700)	3,700	
IND - Industrial Commission	20,110,400		20,110,900			20,001,800
IND - Statewide Adjustments				(229,100)	120,500	
IND - Named Claimants (Ch. 215)		500				
SPA - Judiciary - Supreme Court	30,313,800		30,313,800			30,446,900
SPA - Statewide Adjustments				(68,000)	68,100	
SPA - Shift Risk Management Adjustment to GF				(137,000)		
SPA - CASA Spending Authority Increase					250,000	
SPA - Peace Officer Training Fee Programming Cost (Ch. 312)					20,000	
SUP - Judiciary - Superior Court	12,203,300		12,203,300			11,958,100
SUP - Statewide Adjustments					4,800	
SUP - Remove One-Time Drug Treatment Alternative to Prison				(250,000)		
DJC - Department of Juvenile Corrections	16,655,100		16,655,100			17,657,400
DJC - Statewide Adjustments				(264,300)	8,500	
DJC - Shift from General Fund to Land Trust Fund					1,000,000	
DJC - Teacher Pay Increase					150,000	
DJC - Retirement Adjustment					108,100	
LAN - State Land Department	7,250,000		7,250,000			8,048,800
LAN - Statewide Adjustments				(2,900)	1,700	
LAN - Remove One-Time Professional Service Contracts				(250,000)		
LAN - Remove One-Time Re-assess Federal Permits				(750,000)		
LAN - Remove One-Time Rights of Way Digitization				(450,000)		
LAN - Remove One-Time Survey Assets				(500,000)		

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
LAN - Remove One-Time Workflow Digitization				(500,000)		
LAN - Convert One-Time Funding to Lump Sum Ongoing Support					1,250,000	
LAN - ISA for Fire Suppression Efforts on State Trust Land					800,000	
LAN - Trust Land Management Fund Shift					1,200,000	
Legislature						
LEG - Auditor General	200,000		200,000			0
LEG - Remove One-Time Funding For CAWCD Audit				(200,000)		
LIQ - Department of Liquor Licenses & Control	3,047,500		3,047,500			3,086,000
LIQ - Statewide Adjustments				(40,100)	(12,500)	
LIQ - Fleet Reduction					(4,500)	
LIQ - Licensing Vacancy					(41,700)	
LIQ - Rent Savings - Tucson					(10,000)	
LIQ - E-Licensing Subscription Costs					147,300	
LOT - Arizona State Lottery Commission	116,778,600		116,778,600			125,298,200
LOT - Statewide Adjustments				(104,800)	58,700	
LOT - Sales Adjustment				3,851,300	3,924,400	
LOT - IT Licensing Costs					790,000	
BMT - Board of Massage Therapy	466,100		466,100			460,900
BMT - Statewide Adjustments				(5,000)	(3,900)	
BMT - Relocation to 1740 West Adams					3,700	
MED - Arizona Medical Board	7,006,900		7,006,900			6,987,100
MED - Statewide Adjustments				(57,900)	20,700	
MED - Relocation to 1740 West Adams					17,400	
MIN - State Mine Inspector	112,900		112,900			112,900
NAT - Naturopathic Physicians Medical Board	183,000		183,000			187,400
NAT - Statewide Adjustments				(2,800)	5,700	
NAT - Relocation to 1740 West Adams					1,500	
NAV - Navigable Stream Adjudication Commission	200,000		200,000			200,000
NUR - State Board of Nursing	4,860,500		4,860,500			4,738,200
NUR - Statewide Adjustments				(55,700)	219,500	
NUR - Remove One-Time Server Relocation Funding				(20,000)		
NUR - Relocation to 1740 West Adams					(266,100)	
NCI - Nursing Care Inst. Administrators Board	426,500		426,500			443,600
NCI - Statewide Adjustments				(5,100)	(2,200)	
NCI - E-Licensing Ongoing Costs					24,400	
OCC - Board of Occupational Therapy Examiners	183,700		183,700			190,100
OCC - Statewide Adjustments				(3,000)	12,800	
OCC - E-Licensing Ongoing Costs					14,800	
OCC - Relocation to 1740 West Adams					(8,200)	
OCC - Remove One-Time Funding for Multi-Function Printer				(10,000)		
DIS - State Board of Dispensing Opticians	141,700		155,700			149,100
DIS - Statewide Adjustments				(1,700)	2,300	
DIS - Executive Director Retirement		14,000				
DIS - Relocation of 1740 West Adams					1,000	
DIS - E-Licensing Ongoing Costs					5,800	
OPT - State Board of Optometry	222,200		222,200			243,800
OPT - Statewide Adjustments				(2,100)	1,200	
OPT - E-Licensing Ongoing Costs					10,800	
OPT - One-Time Document Scanning					10,000	
OPT - Relocation to 1740 West Adams					1,700	
OST - AZ Board of Osteopathic Examiners in Medicine/Surgery	913,100		913,100			903,500
OST - Statewide Adjustments				(7,600)	(2,000)	
SPB - Arizona State Parks Board	14,401,500		14,401,500			14,771,400
SPB - Statewide Adjustments				(147,400)	117,300	
SPB - New Operating Funding/Rockin' River & Cattail Cove					400,000	
PER - Personnel Board	378,100		378,100			361,000
PER - Statewide Adjustments				(2,800)	(14,900)	
PER - Relocation to 1740 West Adams					600	
PHA - Arizona State Board of Pharmacy	2,285,100		2,285,100			2,190,000
PHA - Statewide Adjustments				(22,400)	41,800	
PHA - Remove Prescriber Report Cards One-Time Funding				(75,000)		
PHA - Remove One-Time Rule Writer Funding				(15,000)		
PHA - Remove One-Time Funding Leave Payout				(24,500)		

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
PHY - Board of Physical Therapy Examiners	448,000		448,000			499,600
PHY - Statewide Adjustments				(6,800)	20,000	
PHY - E-Licensing Ongoing Costs					41,600	
PHY - One-Time Document Scanning					5,000	
PHY - Relocation to 1740 West Adams					(8,200)	
PIO - Arizona Pioneers' Home	6,605,600		6,605,600			6,684,000
PIO - Statewide Adjustments				(113,000)	59,600	
PIO - Mobility Assistance Equipment					131,800	
POD - State Board of Podiatry Examiners	149,700		149,700			161,900
POD - Statewide Adjustments				(1,300)	3,100	
POD - E-Licensing Ongoing Costs					10,400	
POS - Commission for Postsecondary Education	1,541,100		1,541,100			1,537,200
POS - Statewide Adjustments				(7,000)	3,100	
PRI - Board for Private Postsecondary Education	421,000		421,000			417,800
PRI - Statewide Adjustments				(4,100)	8,300	
PRI - Remove One-Time Leave Payout Funding				(20,800)		
PRI - E-Licensing Ongoing Costs					9,300	
PRI - Relocation to 1740 West Adams					4,100	
PSY - State Board of Psychologist Examiners	480,600		480,600			495,000
PSY - Statewide Adjustments				(5,200)	2,300	
PSY - Relocation to 1740 West Adams					2,400	
PSY - E-Licensing Ongoing Costs					14,900	
DPS - Department of Public Safety	174,648,700		174,648,700			188,320,300
DPS - Statewide Adjustments				(1,668,000)	761,300	
DPS - Remove One-Time Crime Lab Replacement Equipment				(700,000)	700,000	
DPS - Remove One-Time In-Car Cameras Funding				(500,000)		
DPS - Remove One-Time Camera IT Infrastructure Funding				(500,000)		
DPS - Pharmaceutical Diversion & Drug Theft Task Force					758,100	
DPS - Microwave System Upgrade					APF	
DPS - Criminal Justice Information System					APF	
DPS - Peace Officers Training (CCW)					837,000	
DPS - Peace Officer Training Equipment (Ch. 312)					3,053,000	
DPS - HURF Highway Safety Fee Offset					(83,890,000)	
DPS - Highway Safety Fee - Highway Patrol Fund Shift					83,890,000	
DPS - Highway Safety Fee - Retirement Shift					2,885,700	
DPS - Highway Safety Fee - 18 Additional Highway Patrol FTE					4,368,100	
DPS - MVLIE/CCW/Other Fund Shifts					3,350,000	
DPS - Retirement Adjustment					326,400	
RAD - Radiation Regulatory Agency	1,646,400		1,646,400			0
RAD - Agency Transfer to DHS				(1,646,400)		
RUC - Residential Utility Consumer Office	1,344,300		1,344,300			1,342,600
RUC - Statewide Adjustments				(12,900)	11,200	
RES - Board of Respiratory Care Examiners	323,300		323,300			314,400
RES - Statewide Adjustments				(3,500)	(5,600)	
RES - Remove One-Time Temporary Caseload Funding				(19,500)		
RES - Relocation to 1740 West Adams					2,100	
RES - E-Licensing Ongoing Costs					17,600	
RET - Arizona State Retirement System	25,167,700		25,167,700			25,030,300
RET - Statewide Adjustments				(283,500)	171,100	
RET - Operating Budget Savings				(225,000)		
RET - Long-Term Disability Contract Savings				(300,000)		
RET - IT Project Extension					500,000	
REV - Department of Revenue	46,442,400		46,442,400			47,323,200
REV - Statewide Adjustments				(157,500)	563,300	
REV - Shift from General Fund to Liability Setoff					400,000	
REV - TPT Contracting Study (Ch. 305)					75,000	
SOS - Secretary of State	3,695,500		3,695,500			8,823,600
SOS - Statewide Adjustments				(14,000)	4,000	
SOS - Voter Registration Database					2,063,300	
SOS - Election Expenses (Plus \$3.4 M GF)					615,500	
SOS - Non-VR HAVA Funding Projects (Total \$5.4 M)					2,459,300	
TEC - State Board of Technical Registration	2,233,700		2,233,700			2,291,700
TEC - Statewide Adjustments				(29,300)	22,300	
TEC - E-Licensing System Maintenance					65,000	
DOT - Department of Transportation	390,625,600		390,679,800			414,458,300
DOT - Statewide Adjustments				(4,555,300)	2,309,500	
DOT - Remove One-Time Driver Safety/Livestock Control Funding				(1,600,000)		

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
DOT - Remove One-Time Grand Canyon Airport Project Funding				(265,000)		
DOT - Remove One-Time Flagstaff Building Equipment				(2,530,000)		
DOT - Named Claimants (Ch. 215)		54,200				
DOT - Road Surface Treatments					25,606,800	
DOT - Intelligent Traffic System in Rural Areas					1,500,000	
DOT - Managed Digital Security Services					800,000	
DOT - Green Valley MVD Office Relocation					132,000	
DOT - New Ehrenberg Port of Entry Equipment					528,500	
DOT - Security Systems - Ports of Entry					405,700	
DOT - Highway Damage Maintenance Recovery Account					1,000,000	
DOT - Shift \$400K from SETIF to MVLIE					OK	
DOT - Shift \$150K from Highway to Interlock Fund					OK	
DOT - General Fund Shift to Air Quality Fund					50,400	
DOT - Attorney General ISA Cost Increase					46,000	
DOT - Highway Maintenance Workload					642,100	
DOT - 1 instead of 2 Special Plates					(350,000)	
DOT - State Safety Oversight Grant Federal Match					112,000	
TRE - State Treasurer	5,379,400		5,379,400			5,429,600
TRE - Statewide Adjustments				(36,300)	86,500	
UNI - Universities						
UNI - ASU	685,232,600		685,232,600			687,947,600
UNI - Statewide Adjustments					2,715,000	
UNI - Northern Arizona University	157,431,100		157,431,100			157,620,700
UNI - Statewide Adjustments					189,600	
UNI - UA - Main Campus	410,094,700		410,094,700			412,085,600
UNI - Statewide Adjustments					1,990,900	
UNI - UA - Health Sciences Center	49,749,000		49,749,000			49,776,300
UNI - Statewide Adjustments					27,300	
VSC - Department of Veterans' Services	35,492,700		35,492,700			35,414,100
VSC - Statewide Adjustments				(345,100)	195,400	
VSC - Creation of a Compliance Audit Section					71,100	
VME - Veterinary Medical Examining Board	590,000		590,000			605,500
VME - Statewide Adjustments				(5,200)	6,300	
VME - Online Services Enhancement					14,400	
WAT - Department of Water Resources	2,119,600		2,119,600			2,427,100
WAT - Statewide Adjustments				(500)	8,000	
WAT - Fund Shift - Water Resources Fund					300,000	
OTH - Other						
OTH - FY 18 Supplementals/Ex-Appropriations	13,636,300	(13,636,300)	0	(13,636,300)	0	0
OTH - Unallocated HITF One-Time Employer Premium	4,235,700		4,235,700	(4,235,700)	1,306,900	1,306,900
OTH - Unallocated State Rent - Agency Relocation	0		0		(3,700)	(3,700)
OTH - Unallocated State Rent Increase	0		0		246,500	246,500
OTH - Unallocated IT Rate Increase	0		0		72,200	72,200
OTH - Unallocated Retirement Adjustments	0		0		416,000	416,000
OTH - Unallocated Elected Officials Retirement Adjustments	0		0		22,300	22,300
TOTAL - OPERATING SPENDING CHANGES	\$3,981,361,000	3,558,500	\$3,984,919,500	(110,310,600)	142,377,800	\$4,013,428,200
CAPITAL SPENDING CHANGES						
Building Renewal						
Arizona Department of Administration	2,600,000		2,600,000		8,400,000	11,000,000
ADC Building Renewal	5,464,300		5,464,300			5,464,300
Game & Fish Department	530,000		530,000		451,400	981,400
Arizona Lottery Commission	122,200		122,200	4,100		126,300
Arizona Department of Transportation	4,732,300		4,732,300		759,700	5,492,000
New Projects						
ADOA - 1275 W. Washington Demolition	0		0		1,000,000	1,000,000
ADOA - Capitol Mall Consolidation Fund	0		0		10,000,000	10,000,000
ADC - Door Locking Systems	1,450,000		1,450,000	(1,450,000)		0
Arizona Exposition and State Fair	1,000,000		1,000,000	(1,000,000)	1,000,000	1,000,000
Game & Fish Department - Dam Maintenance	0		0		150,000	150,000
Game & Fish Department - Property Maintenance	0		0		300,000	300,000
Local Transportation Funding	30,000,000		30,000,000		(30,000,000)	0
State Parks Board - Rockin River	4,000,000		4,000,000	(4,000,000)		0
State Parks Board Capital Projects	1,300,000		1,300,000	(1,300,000)	2,000,000	2,000,000
State Parks Board - Buckskin Mountain (+ \$1M SLIF)	0		0		1,500,000	1,500,000
State Parks Board - Oracle State Park	0		0		4,000,000	4,000,000
Pioneers' Home - Building Repairs	0		0		600,000	600,000
DPS - Remote Officer Housing (Highway Patrol)	0		0		800,000	800,000
ADOT - Statewide Highway Construction	104,570,000		104,570,000	10,382,000		114,952,000
ADOT - Controlled Access	101,899,000		101,899,000	1,934,000		103,833,000

	FY 2018 OF 1/ Baseline	FY 2018 Changes	FY 2018 OF Revised	FY 19 Baseline 2/ Above FY 18	FY 2019 Changes	FY 2019 OF Enacted Budget
ADOT - Debt Service	108,817,000		108,817,000	35,415,000		144,232,000
ADOT - Airport Planning	24,555,300		24,555,300	(5,756,800)		18,798,500
ADOT - Spreader Racks - Replacing 17	0		0		1,720,000	1,720,000
ADOT - Keams Canyon Truck Barn/Office	0		0		1,790,000	1,790,000
ADOT - New Materials Test Lab	0		0		2,250,000	2,250,000
ADOT - Eliminate One-Time Funding	5,340,000		5,340,000	(5,340,000)		0
Veterans' Services - Flagstaff/Yuma Homes Additional Costs	0		0		8,000,000	8,000,000
TOTAL - CAPITAL SPENDING CHANGES	\$396,380,100	0	\$396,380,100	28,888,300	14,721,100	\$439,989,500
TOTAL - OPERATING & CAPITAL SPENDING	\$4,377,741,100	3,558,500	\$4,381,299,600	(81,422,300)	157,098,900	\$4,453,417,700
FUND TRANSFERS						
APF/DOA - Automation Projects Fund - All For IT Projects						
APF/DOA - Acupuncture Board of Examiner Fund for e-Licensing	45,900		45,900	(45,900)		0
APF/DOA - Automation Operations from ADOA	6,703,000		6,703,000	(5,203,000)	3,830,000	5,330,000
APF/DOA - State Web Portal from ADOA	5,065,600		5,065,600	(5,065,600)	3,517,000	3,517,000
APF/DOA - Personnel Fund	0		0	0	171,900	171,900
APF/DOA - IT Fund from DOA	500,000		500,000	(500,000)		0
APF/DOA - Risk Management from ADOA	440,000		440,000	(440,000)		0
APF/DOA - Athletic Training Fund for e-Licensing	45,900		45,900	(45,900)		0
APF/DOA - Board of Barbers Fund for e-Licensing	40,000		40,000	(40,000)		0
APF/DOA - Behavioral Health Examiners for e-Licensing	0		0	0	450,000	450,000
APF/DOA - Board of Funeral Directors' & Embalmers' Fund (e-Lic.)	27,500		27,500	(27,500)		0
APF/DOA - Admin Fund from Industrial Commission	1,017,400		1,017,400	(1,017,400)		0
APF/DOA - Nursing Care Administrators Fund for e-Licensing	27,500		27,500	(27,500)		0
APF/DOA - Occupational Therapy Fund for e-Licensing	45,900		45,900	(45,900)		0
APF/DOA - Board of Dispensing Opticians Fund for e-Licensing	27,500		27,500	(27,500)		0
APF/DOA - Board of Optometry Fund for e-Licensing	45,900		45,900	(45,900)		0
APF/DOA - Board of Physical Therapy Fund for e-Licensing	45,900		45,900	(45,900)		0
APF/DOA - Podiatry Fund for e-Licensing	27,500		27,500	(27,500)		0
APF/DOA - Board for Private Postsecondary Ed. Fund (e-Lic.)	80,200		80,200	(80,200)		0
APF/DOA - Board of Psychologist Examiners Fund for e-Licensing	91,700		91,700	(91,700)		0
APF/DOA - Board of Respiratory Care Examiners for e-Licensing	44,100		44,100	(44,100)		0
APF/DOA - DEQ Permit Administration for DEQ IT	0		0	0	1,800,000	1,800,000
APF/DOA - DEQ Underground Storage Tank for DEQ IT	3,200,000		3,200,000	(3,200,000)	1,400,000	1,400,000
APF/DOA - DEQ ISA for DEQ IT	3,200,000		3,200,000	(3,200,000)		0
APF/DOA - State Lottery Fund from Lottery Commission	3,497,400		3,497,400	(3,497,400)		0
APF/DOA - Public Safety Equipment Fund from DPS	1,000,000		1,000,000	(1,000,000)	1,250,000	1,250,000
APF/DOA - Concealed Weapons Permit Fund from DPS	2,500,000		2,500,000	(2,500,000)		0
APF/DOA - Fingerprint Clearance Card Fund from DPS	1,343,000		1,343,000	(1,343,000)		0
APF/DOA - DPS Highway Patrol	0		0	0	2,806,200	2,806,200
APF/DOA - Administrative Fund from DOR	4,000,000		4,000,000	(4,000,000)		0
APF/DOA - Liability Setoff Program Revolving Fund from DOR	4,000,000		4,000,000	(4,000,000)		0
APF/DOA - DFI Receivership Revolving Fund for e-Licensing	0		0		1,400,000	1,400,000
Other Transfers						0
ADC - Locking Systems - ADC Building Ren. Fund from ARCOR Revolving	1,450,000		1,450,000	(1,450,000)		0
DHS - State Hospital Fund from Health Service Lottery Fund	1,300,000		1,300,000	(1,300,000)		0
TOTAL - FUND TRANSFERS	\$39,811,900	3,800,000	\$43,611,900	(38,311,900)	16,625,100	\$18,125,100

1/ Represents original FY 2018 appropriations adjusted for revisions in Lottery Commission, Medical Board and the Universities (including consolidating ASU into a single budget unit).

2/ Represents FY 2019 Baseline cost above FY 2018 Baseline.

**CROSSWALK OF FY 2019 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
GENERAL FUND 1/**

GF General Appropriation Act - Individual Agency	GF COSF and COP Rent	GF COSF Rate Increase	GF Retirement	GF Health Insurance Trust Fund	GF IT Pro Rata	GF EORP	GF FY 2019 Additional Appropriations	GF Prior Year/ Statutory Appropriations	GF FY 2019 Approp Rpt Total
2/	3/	3/	3/	3/	3/	3/	4/	5/	
BUDGET UNITS									
Administration, Arizona Department of	\$8,093,800	(\$238,900)	\$6,500	\$19,100	\$51,200	\$7,400	\$0		\$7,939,100
Administration, Arizona Department of Automation Projects Fund	5,000,000	0	0	0	0	0	0		5,000,000
Administrative Hearings, Office of	873,800	(26,000)	14,500	1,700	4,300	600	0		868,900
African-American Affairs, Arizona Commission of	125,000	0	1,400	200	500	100	0		127,200
Agriculture, Arizona Department of	9,481,800	0	76,300	16,200	60,900	4,800	0		9,640,000
AHCCCS	1,776,815,700	0	1,500	53,300	203,100	19,900	0		1,777,093,500
Attorney General - Department of Law	23,945,200	0	134,600	116,600	112,800	13,900	32,200	1,585,000	25,940,300
Charter Schools, State Board for	1,185,200	0	16,200	2,000	5,800	600	0		1,209,800
Child Safety, Department of	375,554,800	(42,300)	79,700	162,800	75,000	8,700	0		375,838,700
Commerce Authority, Arizona	300,000	0	0	0	0	0	0	21,500,000	21,800,000
Community Colleges, Arizona Corporation Commission	51,478,200 611,600	0 0	0 700	0 1,200	0 4,100	0 400	0 0	5,727,300 196,600	57,205,500 814,600
Corrections, State Department of County Funding	1,094,001,200 20,566,200	0 0	380,000 0	0 0	4,879,300 0	409,500 0	0 0		1,099,670,000 20,566,200
Deaf and the Blind, Schools for the	21,378,100	0	0	32,400	238,100	10,700	0		21,659,300
Economic Opportunity, Office of	484,100	0	0	900	3,500	300	0		488,800
Economic Security, Department of	649,687,900	0	404,200	177,400	247,700	19,700	0	400,000	650,936,900
Education, State Board of	1,142,800	0	0	1,400	1,700	400	0		1,146,300
Education, Department of	3,711,710,100	0	93,700	18,700	63,800	7,600	30,400	992,727,700	4,704,652,000
Emergency and Military Affairs, Department of	6,975,100	0	2,100	9,200	19,100	2,700	0	4,090,000	11,098,200
Equalization, State Board of	643,000	2,300	4,800	0	1,700	200	0		652,000
Executive Clemency, Board of	1,112,100	0	19,600	1,600	3,300	400	0		1,137,000
Financial Institutions, State Department of	1,903,200	58,600	0	3,700	17,200	2,100	0		1,984,800
Forestry and Fire Management, Arizona Department of	8,100,300	14,300	0	11,400	27,900	2,800	0	3,000,000	11,156,700
Gaming, Department of	1,779,500	0	0	0	0	0	0		1,779,500
Governor, Office of the	8,305,500	0	150,900	12,800	30,000	5,600	34,000		8,538,800
Governor's Office of Strategic Planning and Budgeting	1,983,900	0	30,000	0	8,200	0	0		2,022,100
Health Services, Department of	89,596,400	(298,000)	79,700	120,600	390,800	41,700	0		89,931,200
Historical Society, Arizona	3,172,500	0	0	5,100	15,800	1,600	0		3,195,000
Historical Society, Prescott	824,500	0	0	1,600	6,600	0	0		832,700
Insurance, Department of	5,616,900	(30,100)	0	9,900	28,800	2,900	0		5,628,400
Judiciary									
Supreme Court	18,628,700	0	675,100	16,600	139,200	8,300	402,200		19,870,100
Court of Appeals	14,581,400	0	87,300	25,900	70,400	9,600	1,217,800		15,992,400
Superior Court	78,493,700	0	0	17,800	0	9,100	2,193,900		80,714,500
SUBTOTAL - Judiciary	111,703,800	0	762,400	60,300	209,600	27,000	3,813,900	0	116,577,000
Juvenile Corrections, Department of	22,421,000	0	79,000	0	216,300	18,200	0		22,734,500
Land Department, State	11,471,600	0	175,500	26,100	54,500	5,700	0		11,733,400
Legislature									
Auditor General	18,880,000	0	0	34,900	102,600	12,100	0	680,000	19,709,600
House of Representatives	13,201,500	0	0	21,000	88,400	8,300	515,800		13,835,000
Joint Legislative Budget Committee	2,488,300	0	0	5,000	9,900	1,600	0		2,504,800
Legislative Council	8,268,200	0	0	8,400	25,100	3,200	0		8,304,900
Senate	9,408,500	0	0	15,400	59,900	5,500	257,900		9,747,200
SUBTOTAL - Legislature	52,246,500	0	0	84,700	285,900	30,700	773,700	680,000	54,101,500
Mine Inspector, State	1,212,500	0	17,200	1,700	5,900	600	17,900		1,255,800
Navigable Stream Adjudication Commission	124,000	0	2,300	200	800	100	0		127,400
Postsecondary Education, Commission for	1,646,800	0	0	0	0	0	0		1,646,800
Public Safety, Department of	103,893,900	0	13,900	0	323,100	10,800	0		104,241,700
Public Safety Personnel Retirement System	1,000,000	0	0	0	0	0	0	6,000,000	7,000,000
Real Estate Department, State	2,904,400	(12,200)	0	5,400	12,800	1,300	0		2,911,700

	GF										GF	GF	GF
	General										FY 2019	Prior Year/	FY 2019
	Appropriation Act - Individual Agency	COSF and COP Rent	COSF Rate Increase	GF Retirement	GF Health Insurance Trust Fund	GF IT Pro Rata	GF EORP	GF Additional Appropriations	GF Statutory Appropriations	GF FY 2019 Approp Rpt Total			
Revenue, Department of	30,682,700	0	214,700	27,500	128,200	10,700	0			31,063,800			
School Facilities Board	236,676,500	0	24,900	2,800	5,500	800	0		37,989,800	274,700,300			
Secretary of State	14,947,700	49,100	473,800	16,200	51,700	5,200	25,100			15,568,800			
Tax Appeals, State Board of	277,700	900	0	500	1,100	200	0			280,400			
Tourism, Office of	7,112,000	0	0	0	0	0	0			7,112,000			
Transportation, Department of	65,000	0	0	0	0	0	0			65,000			
Treasurer, State	1,205,100	0	0	0	0	0	0			1,205,100			
Tribal Relations, Governor's Office on	57,500	0	3,000	100	300	0	0			60,900			
Universities													
Board of Regents	6,887,200	0	0	3,500	7,400	0	0			6,898,100			
Arizona State University	302,125,600	0	0	204,800	1,039,300	0	0		25,406,100	328,775,800			
Northern Arizona University	98,546,800	0	0	103,300	28,500	0	0		13,417,100	112,095,700			
University of Arizona - Main Campus	182,834,500	0	0	192,600	1,006,600	0	0		24,802,700	208,836,400			
University of Arizona - Health Sciences Center	68,859,800	0	0	37,900	0	0	0		0	68,897,700			
SUBTOTAL - Universities	659,253,900	0	0	542,100	2,081,800	0	0		63,625,900	725,503,700			
Veterans' Services, Department of	6,054,100	0	0	10,000	28,400	3,100	0		25,000	6,120,600			
Water Resources, Department of	13,554,200	21,300	2,400	24,600	60,500	6,800	0		500,000	16,169,800			
OPERATING BUDGET TOTAL	\$9,160,959,300	(\$501,000)	\$3,265,500	\$1,582,000	\$9,967,600	\$685,800	\$4,727,200	\$1,121,600	\$1,138,925,700	\$10,320,733,700			
Capital Outlay - Building Renewal/Projects	4,959,000	0	0	0	0	0	0		0	4,959,000			
Capital Outlay - 2010 Leaseback Debt Service	84,112,000	0	0	0	0	0	0		0	84,112,000			
Capital Outlay - Phoenix Convention Center	0	0	0	0	0	0	0		22,996,300	22,996,300			
Capital Outlay - Rio Nuevo District	0	0	0	0	0	0	0		14,000,000	14,000,000			
ADOT I-10 Project Reversion (Equipment Sales)	(12,523,500)	0	0	0	0	0	0		0	(12,523,500)			
Elected Officials Retirement Adjustments	4,727,200	0	0	0	0	0	(4,727,200)		0	0			
Retirement Adjustments	1,732,500	0	0	(1,582,000)	0	0	0		0	150,500			
State Building Rent Increases	3,265,500	0	(3,265,500)	0	0	0	0		0	0			
Agency Rent Adjustments	(501,000)	501,000	0	0	0	0	0		0	0			
Information Technology Pro Rata Adjustments	686,300	0	0	0	0	(685,800)	0		0	500			
Employer Health Insurance Contributions	10,000,000	0	0	0	(9,967,600)	0	0		0	32,400			
Administrative Adjustments	100,000,000	0	0	0	0	0	0		0	100,000,000			
Revertments	(145,000,000)	0	0	0	0	0	0		0	(145,000,000)			
GRAND TOTAL	\$9,212,417,300	\$0	\$0	\$0	\$0	\$0	\$0	\$1,121,600	\$1,175,922,000	\$10,389,460,900			

1/ This chart provides a crosswalk between an agency's appropriation in the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) and the individual agency amount as it appears in the FY 2019 Appropriations Report.

2/ Represents individual agency section of the FY 2019 General Appropriation Act and other direct appropriations in the General Appropriation Act.

3/ Section 145 of the FY 2019 General Appropriation Act appropriates statewide adjustments from the General Fund for Employer Health Insurance Contributions, Information Technology Pro Rata, Agency Rent Adjustments, State Building Rent Increases, Retirement Adjustments and Elected Officials Retirement Adjustments. Section 145 requires JLBC Staff to determine the agency-by-agency distribution of these funds, which are reflected below.

4/ Appropriations separate from the FY 2019 General Appropriation Act enacted in the 53rd Legislature, 2nd Regular Session. Individual bill detail appears in the "Budget Detail" section. See individual agency narrative for detail.

5/ Represents ongoing statutory appropriations or appropriations enacted prior to the 53rd Legislature, 2nd Regular Session. Individual bill detail appears in the "Budget Detail" section. See individual agency narrative for detail.

**CROSSWALK OF FY 2019 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
OTHER FUNDS 1/**

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF COSF and COP Rent <u>3/</u>	OF COSF Rate Increase <u>3/</u>	OF Retirement <u>3/</u>	OF Health Insurance Trust Fund <u>3/</u>	OF IT Pro Rata <u>3/</u>	OF EORP <u>3/</u>	OF FY 2019 Additional Appropriations <u>4/</u>	OF Prior Year/ Statutory Appropriations <u>5/</u>	OF FY 2019 Approp Rpt Total
<u>BUDGET UNITS</u>										
Accountancy, State Board of										
Board of Accountancy Fund	\$2,024,400	\$2,900	\$0	\$2,400	\$7,400	\$800	\$0			\$2,037,900
Acupuncture Board of Examiners										
Acupuncture Board of Examiners Fund	169,600	700	1,200	200	100	100	0			171,900
Administration, Arizona Department of										
Air Quality Fund	927,300	0	0	0	0	0	0			927,300
Arizona Financial Information System Collections Fund	9,406,300	0	0	7,700	31,000	2,700	0			9,447,700
Automation Operations Fund	25,437,600	0	71,100	13,800	19,000	4,000	0			25,545,500
Capital Outlay Stabilization Fund	18,569,600	(534,000)	50,200	11,600	35,400	3,500	0			18,136,300
Corrections Fund	570,400	0	0	800	1,100	200	0			572,500
Federal Surplus Materials Revolving Fund	464,500	0	0	100	300	0	0			464,900
Information Technology Fund	5,536,000	0	0	4,800	5,800	800	0			5,547,400
Motor Vehicle Pool Revolving Fund	10,151,300	0	6,800	1,200	2,900	400	0			10,162,600
Personnel Division Fund	12,668,800	0	18,900	17,800	36,800	5,500	0			12,747,800
Risk Management Revolving Fund	94,523,100	0	3,800	11,200	28,000	3,000	0			94,569,100
Special Employee Health Insurance Trust Fund	5,256,100	0	0	7,300	18,500	1,900	0			5,283,800
Special Services Revolving Fund	996,500	55,900	23,400	1,200	2,900	200	0			1,080,100
State Surplus Materials Revolving Fund	2,947,000	0	10,400	1,100	4,800	400	0			2,963,700
State Web Portal Fund	5,542,400	0	0	3,200	2,200	300	0			5,548,100
State Monument and Memorial Repair Fund	25,300	0	0	0	0	0	0			25,300
Telecommunications Fund	1,845,100	0	63,400	2,300	4,900	600	0			1,916,300
Total - Arizona Department of Administration	194,867,300	(478,100)	248,000	84,100	193,600	23,500	0	0	0	194,938,400
Administration, Arizona Department of -										
Automation Projects Fund	\$23,125,100	0	0	0	0	0	0			23,125,100
Agriculture, Arizona Department of										
Air Quality Fund	1,434,400	0	0	1,900	8,700	200	0			1,445,200
Nuclear Emergency Management Fund	0	0	0	0	0	0	0	275,000		275,000
Total - Arizona Department of Agriculture	1,434,400	0	0	1,900	8,700	200	0	0	275,000	1,720,200
AHCCCS										
Budget Neutrality Compliance Fund	3,756,200	0	0	0	0	0	0			3,756,200
Children's Health Insurance Program Fund	87,566,800	0	0	3,900	1,800	200	0			87,572,700
Prescription Drug Rebate Fund - State	148,457,900	0	0	600	300	0	0			148,458,800
Substance Abuse Services Fund	2,250,200	0	0	0	0	0	0			2,250,200
Tobacco Products Tax Fund										
Emergency Health Services Account	17,966,100	0	0	0	0	0	0			17,966,100
Tobacco Tax and Health Care Fund										
Medically Needy Account	68,040,500	0	0	0	0	0	0			68,040,500
Total - AHCCCS	328,037,700	0	0	4,500	2,100	200	0	0	0	328,044,500
Arts, Arizona Commission on the										
Budget Stabilization Fund	2,000,000	0	0	0	0	0	0			2,000,000
Athletic Training, Board of										
Athletic Training Fund	122,100	0	0	200	1,100	100	0			123,500
Attorney General - Department of Law										
Antitrust Enforcement Revolving Fund	93,300	0	54,000	400	700	100	0			148,500
Attorney General Legal Services Cost Allocation Fund	2,072,600	0	14,100	3,800	11,000	1,300	0			2,102,800
Collection Enforcement Revolving Fund	6,837,700	0	22,600	16,800	23,900	3,500	0			6,904,500
Consumer Protection-Consumer Fraud Rev. Fund	7,157,100	0	7,500	28,100	18,500	2,400	0			7,213,600
Consumer Restitution and Remediation Revolving Fund - Consumer Remediation Subaccount	1,489,000	0	0	0	0	0	0			1,489,000
Interagency Service Agreements Fund	16,308,500	0	0	45,800	64,300	10,000	0			16,428,600
Internet Crimes Against Children Enforcement Fund	900,000	0	0	0	0	0	0			900,000
Risk Management Revolving Fund	9,906,700	0	97,300	17,700	42,600	5,700	0			10,070,000
Victims' Rights Fund	3,758,700	0	5,500	1,000	1,400	200	0			3,766,800
Total - Attorney General - Department of Law	48,523,600	0	201,000	113,600	162,400	23,200	0	0	0	49,023,800
Automobile Theft Authority										
Automobile Theft Authority Fund	5,295,500	9,100	0	1,000	3,000	300	0			5,308,900

	OF General Appropriation Act - Individual Agency	OF COSF and COP Rent	OF COSF Rate Increase	OF Retirement	OF Health Insurance Trust Fund	OF IT Pro Rata	OF EORP	OF FY 2019 Additional Appropriations	OF Prior Year/ Statutory Appropriations	OF FY 2019 Approp Rpt Total
	2/	3/	3/	3/	3/	3/	3/	4/	5/	
Barbers, Board of										
Board of Barbers Fund	387,500	6,900	4,200	500	1,800	200	0			401,100
Behavioral Health Examiners, Board of										
Board of Behavioral Health Examiners Fund	1,676,700	68,300	15,500	2,600	8,400	800	0			1,772,300
Child Safety, Department of										
Child Abuse Prevention Fund	1,459,300	0	0	0	0	0	0			1,459,300
Children and Family Services Training Program Fund	207,100	0	0	0	0	0	0			207,100
Federal Child Care and Development Fund Block Grant	27,000,000	0	0	0	0	0	0			27,000,000
Federal Temporary Assistance for Needy Families Block Grant	157,190,500	0	0	88,800	0	0	0			157,279,300
Risk Management Revolving Fund	3,770,000	0	0	0	0	0	0			3,770,000
Total - Department of Child Safety	189,626,900	0	0	88,800	0	0	0	0	0	189,715,700
Chiropractic Examiners, State Board of										
Board of Chiropractic Examiners Fund	406,900	16,300	3,500	600	2,200	200	0			429,700
Contractors, Registrar of										
Registrar of Contractors Fund	12,165,400	(5,000)	69,900	17,000	48,100	4,700	0			12,300,100
Corporation Commission										
Arizona Arts Trust Fund	49,900	0	0	100	700	0	0			50,700
Investment Management Regulatory and Enforcement Fund	708,900	0	0	1,600	3,700	500	0			714,700
Public Access Fund	6,558,800	0	109,700	8,900	32,600	3,000	0			6,713,000
Securities Regulatory and Enforcement Fund	4,909,600	0	92,800	8,700	24,400	2,700	0			5,038,200
Utility Regulation Revolving Fund	14,098,400	0	90,200	26,800	73,200	9,600	151,100			14,449,300
Total - Corporation Commission	26,325,600	0	292,700	46,100	134,600	15,800	151,100	0	0	26,965,900
Corrections, State Department of										
Alcohol Abuse Treatment Fund	555,500	0	0	0	0	0	0			555,500
Corrections Fund	30,312,300	0	0	0	0	0	0			30,312,300
Inmate Store Proceeds Fund	1,340,400	0	0	0	0	0	0			1,340,400
Penitentiary Land Fund	2,507,400	0	0	0	0	0	0			2,507,400
Prison Construction and Operations Fund	12,500,000	0	0	0	0	0	0			12,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	3,079,500	0	0	0	0	0	0			3,079,500
State Education Fund for Correctional Education	724,100	0	0	0	3,400	400	0			727,900
Transition Program Fund	2,940,100	0	0	0	0	0	0			2,940,100
Total - State Department of Corrections	53,959,300	0	0	0	3,400	400	0	0	0	53,963,100
Cosmetology, Board of										
Board of Cosmetology Fund	1,802,500	82,700	17,700	10,200	12,400	800	0			1,926,300
County Funding										
State Charitable, Penal and Reformatory Institutions Land Fund	0	0	0	0	0	0	0	500,000		500,000
Criminal Justice Commission, Arizona										
Criminal Justice Enhancement Fund	646,600	0	0	800	2,200	400	0			650,000
Drug and Gang Prevention Resource Center Fund	604,500	5,000	0	700	1,600	200	0	200,000		812,000
Fingerprint Clearance Card Fund	600,000	0	0	0	0	0	0			600,000
State Aid to County Attorneys Fund	973,700	0	0	0	0	0	0			973,700
Victim Compensation and Assistance Fund	4,220,600	0	0	300	1,400	100	0			4,224,400
Total - Arizona Criminal Justice Commission	7,045,400	5,000	0	1,800	5,200	700	0	200,000	0	7,258,100
Deaf and the Blind, Arizona Schools for the										
Schools for the Deaf and the Blind Fund	11,500,100	0	0	22,400	7,800	7,600	0			11,537,900
Telecommunication Fund for the Deaf	0	0	0	0	0	0	0	2,070,000		2,070,000
Total - Arizona State Schools for the Deaf and the Blind	11,500,100	0	0	22,400	7,800	7,600	0	2,070,000	0	13,607,900
Deaf and the Hard of Hearing, Comm. for the										
Telecommunication Fund for the Deaf	4,604,300	(2,800)	0	3,200	7,900	900	0			4,613,500
Dental Examiners, State Board of										
Dental Board Fund	1,250,800	34,300	6,900	1,600	6,400	500	0			1,300,500
Economic Security, Department of										
Child Support Enforcement Administration Fund	16,632,600	0	5,800	82,400	233,800	18,500	0			16,973,100
Domestic Violence Services Fund	4,000,000	0	0	0	0	0	0			4,000,000

	OF General Appropriation Act - Individual Agency	OF COSF and COP Rent	OF COSF Rate Increase	OF Retirement	OF Health Insurance Trust Fund	OF IT Pro Rata	OF EORP	OF FY 2019 Additional Appropriations	OF Prior Year/ Statutory Appropriations	OF FY 2019 Approp Rpt Total	
	2/	3/	3/	3/	3/	3/	3/	4/	5/		
State Lottery Fund	125,239,500	0	0	14,400	40,500	3,800	0			125,298,200	
Massage Therapy, Board of Board of Massage Therapy Fund	464,800	(10,700)	3,700	600	2,300	200	0			460,900	
Medical Board, Arizona Arizona Medical Board Fund	6,966,400	(49,800)	34,400	10,100	23,000	3,000	0			6,987,100	
Mine Inspector, State Aggregate Mining Reclamation Fund	112,900	0	0	0	0	0	0			112,900	
Naturopathic Physicians Medical Board Naturopathic Physicians Medical Board Fund	181,700	2,300	1,500	300	1,500	100	0			187,400	
Navigable Stream Adjudication Commission Arizona Water Banking Fund	200,000	0	0	0	0	0	0			200,000	
Nursing, State Board of Board of Nursing Fund	4,518,700	151,800	34,400	6,900	23,600	2,800	0			4,738,200	
Nursing Care Institution Administrators Board Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	445,800	(8,700)	3,300	700	2,300	200	0			443,600	
Occupational Therapy Examiners, Board of Occupational Therapy Fund	177,300	9,300	1,900	300	1,200	100	0			190,100	
Opticians, State Board of Dispensing Board of Dispensing Opticians Fund	146,800	100	1,200	200	700	100	0			149,100	
Optometry, State Board of Board of Optometry Fund	242,600	(1,600)	1,500	400	800	100	0			243,800	
Osteopathic Examiners, Arizona Board of Board of Osteopathic Examiners Fund	905,500	(11,100)	4,600	0	4,100	400	0			903,500	
Parks Board, Arizona State State Parks Revenue Fund	14,654,100	0	10,300	45,300	56,900	4,800	0			14,771,400	
Personnel Board, State Personnel Board Subaccount of the Personnel Division Fund	375,900	(18,100)	1,500	400	1,200	100	0			361,000	
Pharmacy, Arizona State Board of Arizona State Board of Pharmacy Fund	2,148,200	0	27,000	3,700	9,900	1,200	0			2,190,000	
Physical Therapy, Board of Board of Physical Therapy Fund	479,600	13,700	2,700	600	2,800	200	0			499,600	
Pioneers' Home, Arizona Miners' Hospital for Miners with Disabilities Land Fund State Charitable Fund	2,160,700 4,463,700	0 0	0 0	3,100 7,500	14,000 31,500	1,000 2,500	0 0			2,178,800 4,505,200	
Total - Arizona Pioneers' Home	6,624,400	0	0	10,600	45,500	3,500	0	0	0	6,684,000	
Podiatry Examiners, State Board of Podiatry Fund	158,800	800	1,200	200	800	100	0			161,900	
Postsecondary Education, Commission for Postsecondary Education Fund	1,534,100	0	0	400	2,600	100	0			1,537,200	
Private Postsecondary Education, Board for Board for Private Postsecondary Education Fund	409,500	2,100	3,400	800	1,800	200	0			417,800	
Psychologist Examiners, State Board of Board of Psychologist Examiners Fund	492,700	(4,300)	3,200	700	2,500	200	0			495,000	
Public Safety, Department of Arizona Highway Patrol Fund Concealed Weapons Permit Fund Criminal Justice Enhancement Fund DPS Forensics Fund Drug and Gang Prevention Resource Center Fund Fingerprint Clearance Card Fund GIITEM Border Security and Law Enforcement Subaccount Highway User Revenue Fund Motor Vehicle Liability Insurance Enforcement Fund Motorcycle Safety Fund Parity Compensation Fund Peace Officer Training Equipment Fund	116,136,600 3,548,600 2,914,800 22,415,100 758,100 1,500,000 2,538,700 15,508,700 1,250,000 205,000 3,442,200 0	0 0 0 0 0 0 0 0 0 0 0 0 0	0 0 0 0 0 0 0 0 0 0 0 0 0	0 0 0 0 0 0 0 0 0 0 0 0 0	184,800 5,600 12,500 80,600 0 0 1,900 0 0 0 9,300 0	0 500 0 100 0 2,500 100 0 0 0 0 0 0	0 0 0 0 0 0 0 0 0 0 0 0 0				116,321,400 3,554,700 2,927,300 22,495,800 758,100 1,502,500 2,540,700 15,508,700 1,250,000 205,000 3,451,500 3,053,000 3,053,000

	OF General Appropriation Act - Individual Agency	OF COSF and COP Rent	OF COSF Rate Increase	OF Retirement	OF Health Insurance Trust Fund	OF IT Pro Rata	OF EORP	OF FY 2019 Additional Appropriations	OF Prior Year/ Statutory Appropriations	OF FY 2019 Approp Rpt Total
	2/	3/	3/	3/	3/	3/	3/	4/	5/	
Public Safety Equipment Fund	2,893,700	0	0	0	0	0	0			2,893,700
Risk Management Revolving Fund	1,337,100	0	3,600	0	4,000	600	0			1,345,300
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,643,500	0	0	0	0	0	0			1,643,500
State Aid to Indigent Defense Fund	700,000	0	0	0	0	0	0			700,000
State Highway Fund	7,713,900	0	7,100	0	448,100	0	0			8,169,100
Total - Department of Public Safety	184,506,000	0	10,700	0	746,800	3,800	0	3,053,000	0	188,320,300
Residential Utility Consumer Office Residential Utility Consumer Office Revolving Fund	1,331,400	3,000	0	2,300	5,300	600	0			1,342,600
Respiratory Care Examiners, Board of Board of Respiratory Care Examiners Fund	320,000	(10,100)	2,200	500	1,600	200	0			314,400
Retirement System, Arizona State Long-Term Disability Trust Fund Administration Account	2,200,000	0	0	0	0	0	0			2,200,000
Arizona State Retirement System Administration Account	22,659,200	0	0	39,100	118,700	13,300	0			22,830,300
Total - Arizona State Retirement System	24,859,200	0	0	39,100	118,700	13,300	0	0	0	25,030,300
Revenue, Department of Department of Revenue Administrative Fund	45,158,700	0	301,700	61,500	174,500	17,500	0			45,713,900
Department of Revenue Empowerment Scholarship Account Fund	50,000	0	0	0	0	0	0			50,000
Liability Setoff Program Revolving Fund	797,900	0	1,200	700	2,800	200	0			802,800
Residential Contractors' Recovery Fund	0	0	0	0	0	0	0	75,000		75,000
Tobacco Tax and Health Care Fund	678,300	0	800	500	1,800	100	0			681,500
Total - Department of Revenue	46,684,900	0	303,700	62,700	179,100	17,800	0	75,000	0	47,323,200
Secretary of State Data Processing Acquisition Fund	115,500	0	0	0	0	0	0			115,500
Election Systems Improvement Fund	7,463,700	0	0	0	0	0	0			7,463,700
Records Services Fund	1,240,400	0	0	600	3,200	200	0			1,244,400
Total - Secretary of State	8,819,600	0	0	600	3,200	200	0	0	0	8,823,600
Technical Registration, State Board of Technical Registration Fund	2,269,400	4,900	0	3,300	13,100	1,000	0			2,291,700
Transportation, Department of Air Quality Fund	324,100	0	0	0	0	0	0			324,100
Driving Under the Influence Abatement Fund	152,200	0	0	0	800	100	0			153,100
Highway User Revenue Fund	649,700	0	0	1,000	3,400	300	0			654,400
Highway Damage Recovery Account	4,000,000	0	0	0	0	0	0			4,000,000
Ignition Interlock Device Fund	150,000	0	0	0	0	0	0			150,000
Motor Vehicle Liability Insurance Enforcement Fund	1,708,600	0	0	1,800	9,500	700	0			1,720,600
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,468,400	0	0	2,300	10,500	800	0			1,482,000
State Aviation Fund	1,816,800	0	0	2,000	9,400	800	0			1,829,000
State Highway Fund	381,954,200	(127,800)	0	426,100	1,655,900	164,800	0			384,073,200
Transportation Department Equipment Fund	18,474,600	0	0	26,000	100,400	8,300	0			18,609,300
Vehicle Inspection and Certificate of Title Enforcement Fund	1,450,200	0	0	2,100	9,500	800	0			1,462,600
Total - Department of Transportation	412,148,800	(127,800)	0	461,300	1,799,400	176,600	0	0	0	414,458,300
Treasurer, State Law Enforcement and Boating Safety Fund	2,183,800	0	0	0	0	0	0			2,183,800
State Treasurer Empowerment Scholarship Account Fund	304,400	0	0	0	0	0	0			304,400
State Treasurer's Operating Fund	2,559,300	5,300	32,400	5,600	14,800	1,800	26,600			2,645,800
State Treasurer's Management Fund	295,600	0	0	0	0	0	0			295,600
Total - State Treasurer	5,343,100	5,300	32,400	5,600	14,800	1,800	26,600	0	0	5,429,600
Universities Arizona State University Technology and Research Initiative Fund	3,600,000	0	0	0	0	0	0			3,600,000
University Collections Fund	681,632,600	0	0	444,100	2,270,900	0	0			684,347,600
Total - Arizona State University	685,232,600	0	0	444,100	2,270,900	0	0	0	0	687,947,600

	OF General Appropriation Act - Individual Agency	OF COSF and COP Rent	OF COSF Rate Increase	OF Retirement	OF Health Insurance Trust Fund	OF IT Pro Rata	OF EORP	OF FY 2019 Additional Appropriations	OF Prior Year/ Statutory Appropriations	OF FY 2019 Approp Rpt Total
Northern Arizona University										
University Collections Fund	157,431,100	0	0	149,800	39,800	0	0			157,620,700
University of Arizona - Main Campus										
University Collections Fund	410,094,700	0	0	395,200	1,595,700	0	0			412,085,600
University of Arizona - Health Sciences Center										
University Collections Fund	49,749,000	0	0	27,300	0	0	0			49,776,300
SUBTOTAL - Universities	1,302,507,400	0	0	1,016,400	3,906,400	0	0	0	0	1,307,430,200
Veterans' Services, Department of										
State Home for Veterans Trust Fund	35,218,700	0	0	43,500	138,900	13,000	0			35,414,100
Total - Department of Veterans' Services	35,218,700	0	0	43,500	138,900	13,000	0	0	0	35,414,100
Veterinary Medical Examining Board										
Veterinary Medical Examining Board Fund	599,200	(1,900)	5,400	1,000	1,600	200	0			605,500
Water Resources, Department of										
Assured and Adequate Water Supply Admin Fund	266,300	0	0	600	1,600	0	0			268,500
Water Resources Fund	941,400	0	0	300	4,300	400	0			946,400
Water Banking Fund	1,211,400	0	0	600	0	200	0			1,212,200
Total - Department of Water Resources	2,419,100	0	0	1,500	5,900	600	0	0	0	2,427,100
OPERATING BUDGET TOTAL	\$3,973,413,400	(977,800)	1,453,500	2,584,000	8,693,100	427,800	177,700	21,070,000	4,526,300	4,011,368,000
Elected Officials Retirement Adjustments	200,000						(177,700)			22,300
Retirement Adjustments	3,000,000			(2,584,000)						416,000
State Building Rent Increases	1,700,000		(1,453,500)							246,500
Agency Rent Adjustments	(981,500)	977,800								(3,700)
Information Technology Pro Rata Adjustments	500,000					(427,800)				72,200
Employer Health Insurance Contributions	10,000,000				(8,693,100)					1,306,900
Capital Outlay - Building Renewal/Projects	439,989,500									439,989,500
GRAND TOTAL	4,427,821,400	\$0	\$0	\$0	\$0	\$0	\$0	\$21,070,000	\$4,526,300	\$4,453,417,700

CROSSWALK OF FY 2019 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS EXPENDITURE AUTHORITY

AHCCCS	\$10,414,813,800	\$0	\$1,500	\$96,500	\$397,200	\$31,700	\$0	\$0	\$0	\$10,415,340,700
Child Safety, Department of	437,132,000	0	0	134,100	48,800	115,300	0	0	0	437,430,200
Economic Security, Department of	1,215,215,900	0	135,100	175,600	202,600	16,400	0	0	0	1,215,745,600
GRAND TOTAL	\$12,067,161,700	\$0	\$136,600	\$406,200	\$648,600	\$163,400	\$0	\$0	\$0	\$12,068,516,500

1/ This chart provides a crosswalk between an agency's appropriation in the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) and the individual agency amount as it appears in the FY 2019 Appropriations Report.

2/ Represents individual agency section of FY 2019 General Appropriation Act and other direct appropriations in the General Appropriation Act.

3/ Section 145 of the FY 2019 General Appropriation Act appropriates adjustments from the General Fund to individual agencies for Employer Health Insurance Contributions, Information Technology Pro Rata, Agency Rent Adjustments, State Building Rent Increase Retirement Adjustments and Elected Officials Retirement Adjustments that net to zero. Section 145 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

4/ Appropriations separate from the FY 2019 General Appropriation Act enacted in the 53rd Legislature, 2nd Regular Session. Individual bill detail appears in the "Budget Detail" section. See individual agency narrative for detail.

5/ Represents ongoing statutory appropriations or appropriations enacted prior to the 53rd Legislature, 2nd Regular Session. Individual bill detail appears in the "Budget Detail" section. See individual agency narrative for detail.

SUMMARY OF RISK MANAGEMENT CHARGES 1/

<u>Agency</u>	<u>FY 2019 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 and 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 and 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 and Budgeting	3,900
Health Services, Department of	934,000
Historical Society, Arizona	414,500
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
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

<u>Agency</u>	<u>FY 2019 Charge</u>
Legislature - Auditor General	44,600
Legislature - House of Representatives	83,900
Legislature - Joint Legislative Budget Committee	8,000
Legislature - Senate	89,900
Liquor Licenses 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, State Board of	11,400
Nursing Care Institution of Administrators and Assisted Living Facility Managers, Board of Examiners of	2,400
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
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 <u>2/</u>	15,981,300
Treasurer, State	6,800
Tribal Relations, Governor's Office on	1,100
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 Laws, Commission on	1,000
GRAND TOTAL	<u><u>65,390,100</u></u>

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 2019 BUDGET RECONCILIATION BILLS (BRBs) AND MAJOR FOOTNOTE CHANGES*

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Budget Procedures BRB - Chapter 279 (SB 1524)	483
Criminal Justice BRB - Chapter 278 (SB 1523)	484
Environment BRB - Chapter 280 (SB 1525)	485
Health BRB - Chapter 284 (HB 2659)	486
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Human Services BRB - Chapter 282 (SB 1528)	488
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Revenues BRB - Chapter 283 (SB 1529)	490
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Major Footnote Changes	493

*Chapter numbers refer to Laws 2018, 2nd Regular Session.

FY 2019 BUDGET RECONCILIATION BILL PROVISIONS

The budget includes the enactment of statutory changes associated with its funding amount. The following provisions are grouped by subject into Budget Reconciliation Bills (BRBs).

BUDGET PROCEDURES – CHAPTER 279 (SB 1524)

	<u>Section</u>
Statewide	
1. As permanent law, require annual appropriations for all agencies. The existing permanent law requires biennial appropriations for smaller agencies, but has been annually suspended in session law for more than a decade.	9, 11-17
2. As session law, set the FY 2019 Capital Outlay Stabilization Fund (COSF) rental rate charged by the Arizona Department of Administration (ADOA) at \$16.08/square foot for rentable office space and \$5.79/square foot for rentable storage space. The current rate is \$13.08/square foot for rentable office space and \$4.74/square foot for rentable storage space.	39
3. As session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.	38
4. As permanent law, increase the pro rata share for the Information Technology Fund from 0.20% to 0.30% of total payroll.	2
5. As session law, change the A.R.S. § 35-112 deadline for OSPB to provide budget request forms to agencies from June 1 to July 1.	45
Arizona Department of Administration	
6. As permanent law, create a new appropriated Capitol Mall Consolidation Fund. As session law, direct sale proceeds from the properties at 2910 N. 44th St. in Phoenix, 2162 N. Vickey St. in Flagstaff, and the northeast corner of South Horne Street and East Baseline Road in Mesa to be deposited in the newly-created fund.	31,44
7. As permanent law, repeal the Capitol Mall Commission and delegate its authority to ADOA.	10, 33-37
8. As permanent law, require ADOA to report on the 3 salary tiers of state employees in the Public Safety and Correctional Officer Retirement systems. The report is due to the Joint Legislative Budget Committee (JLBC) by October 1 of each year.	27
9. As permanent law, allow the Personnel Division Fund to be used for the Governor's Office for Equal Opportunity.	29
Arizona Department of Administration - Automation Projects Fund (APF)	
10. As permanent law, require ADOA to establish subaccounts for each agency that implement an information technology project through the APF and prohibits monies from being transferred between agency subaccounts.	28
11. As permanent law, requires the Information Technology Authorization Committee (ITAC) to review information technology projects that involve more than one agency if the cost of the project across all agencies exceeds \$1,000,000.	1
12. As permanent law, require ADOA to include a report on the cost, timeline, and method of procurement when requesting JLBC review for an APF project expenditure plan.	28
Corporation Commission	
13. As permanent law, amend A.R.S. § 40-443 to eliminate the inactive Pipeline Safety Revolving Fund and transfer any remaining balance to the General Fund.	26
Department of Insurance	
14. As session law, allow the department to use monies from the Assessment Fund for Voluntary Plans Fund in FY 2019 and FY 2020 to pay for the arbitration process of surprise billings.	41
Joint Legislative Audit Committee	
15. As permanent law, extend the Joint Legislative Audit Committee through FY 2026.	32

Retirement		
16.	As permanent law, implement December 1 rather than December 15 and 31 reporting dates for the Arizona State Retirement System and Public Safety Personnel Retirement System (PSPRS) actuarial reports.	18-25
Department of Revenue		
17.	As session law, allow the Liability Setoff Program Revolving Fund to be used for general operating expenditures of the department.	42
Secretary of State		
18.	As session law, allow the Records Services Fund and Data Processing Acquisition Fund to fund election services.	40
Arizona Department of Transportation		
19.	As permanent law, the Arizona Department of Transportation (ADOT) is required to provide only one special plate per vehicle. Also requires ADOT to set fee for a second plate.	3-8
Revenues		
20.	As session law, continue to notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund through FY 2021.	43
Other		
21.	As permanent law, require JLBC approval of placement of light rail stations near the Capitol. JLBC must take action within 120 days of receiving a report.	30

CRIMINAL JUSTICE – CHAPTER 278 (SB 1523)

		<u>Section</u>
Attorney General		
22.	As permanent law, remove the requirement that the Attorney General report on any setoffs of the costs of incarceration against monetary judgments awarded to inmates in the past 6 months.	2
23.	As permanent law, remove the requirement that each agency report to the JLBC the fund sources used to pay the Legal Services Cost Allocation Fund charges.	4
24.	As session law, allow the Attorney General to expend monies up to \$1,489,000 from the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund for the Attorney General’s Case Management Information Technology System Upgrade and Licensing Compliance. This allowance would be limited to FY 2019 and FY 2020. Allow \$1,400,000 from this account to offset general operating expenses in FY 2021.	15, 16
25.	As permanent law, increases the amount of the year-end balance in the Collection Enforcement Revolving Fund that is not subject to lapsing from \$500,000 to \$1,000,000.	3
State Department of Corrections		
26.	As session law, continue to require the department to report actual FY 2018, estimated FY 2019, and requested FY 2020 expenditures as delineated in the prior year when the department submits its FY 2020 budget request pursuant to A.R.S. § 35-113.	7
Arizona Criminal Justice Commission		
27.	As permanent law, require the Arizona Criminal Justice Commission to submit its annual federal grant application for the Edward Byrne Memorial Justice Assistance Grant to the Legislature in compliance with federal law. The JLBC would review the report.	5
28.	As session law, appropriate \$200,000 in FY 2019 from the Drug and Gang Prevention Resource Center Fund for distributions to Pinal and Yavapai County Attorneys for a pilot program to collect and post criminal justice statistics on their websites monthly during calendar year 2019.	21,22

Department of Emergency and Military Affairs

- 29. As session law, allow the Department to expend \$1,250,000 from the Military Installation Fund for the construction of a new Readiness Center. 14

Judiciary

- 30. As permanent law, require 25% cost sharing for Maricopa Superior Court judges in FY 2020 and 50% sharing starting in FY 2021. 1
- 31. As session law, allow the Administrative Office of the Courts to use monies in the Juvenile Probation Reduction Fund, the Drug Treatment and Education Fund, the Arizona Lengthy Trial Fund, and the Alternative Dispute Resolution Fund for a new Appellate Case Management System up to a total of \$3,150,000 through FY 2020. 17

Department of Juvenile Corrections

- 32. As session law, continue to state that it is the intent of the Legislature that each county pays an assessed amount determined by the county's proportional share by population of \$11,260,000. 11

Department of Public Safety

- 33. As session law, continue to require the Department of Public Safety (DPS) to receive JLBC review of the expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount FY 2019 appropriation prior to its expenditure. 8
- 34. As session law, increase the statutory spending cap for HURF from \$10,000,000 to \$16,000,000 for FY 2019. 20
- 35. As session law, allow the use of the Concealed Weapons Permit Fund and continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses. 10
- 36. As session law, continue to allow DPS to utilize \$148,700 from the FY 2019 GIITEM Subaccount appropriation for costs related to an increase in the PSPRS employer contribution rate. 9
- 37. As session law, continue to allocate \$400,000 from the GIITEM General Fund distribution to the Pima County Sheriff's Office. 6
- 38. As session law, allow the Concealed Weapons Permit Fund to be used for the Arizona Peace Officer Standards and Training Board. 18
- 39. As session law, allow the Arizona Highway Patrol Fund to be used for the criminal justice information system. 12
- 40. As session law, allow the Public Safety Equipment Fund to be used for the microwave system upgrade. 13
- 41. As session law, allow DPS to use the Arizona Drug and Gang Resource Center Fund for Pharmaceutical Diversion and Drug Theft Task Force. 19

ENVIRONMENT – CHAPTER 280 (SB 1525)

Section

Department of Environmental Quality

- 42. As session law, continue to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank (UST) Fund in FY 2019 for department administrative expenses and for sewage remediation. 5
- 43. 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 2019, appropriate \$6,500,000 from the Vehicle Emissions Inspection Fund, \$5,000,000 from the Air Quality Fund, and \$2,052,000 from the Recycling Fund to WQARF, for a total of \$13,552,000. With \$2,000,000 of non-appropriated funds, total WQARF funding would be \$15,552,000. 7
- 44. As session law, continue the FY 2018 level of vehicle emissions inspection fees in FY 2019 (FY 2018 fees are \$3 less than FY 2016 in Area A, which includes Maricopa County and portions of Pinal and Yavapai Counties.) 10

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| 45. | As session law, continue to include a legislative intent statement that the WQARF appropriations are being supplemented by \$2,000,000 of non-appropriated monies directly deposited into WQARF, which consists of other revenue generated from various license and registration fees. | 7 |
| 46. | As permanent law, allow Water Quality Fee Fund monies to be used to fund the Water Quality Monitoring Program and the costs of providing aquifer pollution information required by A.R.S. § 49-249 in FY 2019. Was previously a session law. | 1 |
| 47. | As permanent law, amend A.R.S. § 49-210 to include the issuance of reclaimed water permits as an allowable use of the Water Quality Fee Fund. Reclaimed water permit fees are already deposited to the fund. | 1 |
| 48. | As session law, allow the department to use the Underground Storage Tank Fund for the cost of developing and implementing e-licensing. | 9 |
| 49. | As session law, allow the department to use the Permit Administration Fund for e-licensing. | 9 |
| 50. | As session law, eliminate language in Laws 2018, Chapter 225 that would erroneously repeal sections of statute. Repeals Chapter 225 if Dredge and Fill Permit Program is not approved by the EPA by August 1, 2023. (Technical correction). | 2 |

Arizona Navigable Stream Adjudication Commission

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| 51. | As session law, continue to allow use of the Water Banking Fund for the commission’s unpaid legal obligations. | 6 |
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Arizona State Parks Board

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|-----|---|---|
| 52. | As session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs. | 4 |
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Department of Water Resources

- | | | |
|-----|---|----|
| 53. | 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 2019. | 3 |
| 54. | 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. | 11 |
| 55. | As session law, appropriates \$100,000 to DWR in FY 2019 to contract with an independent consultant to estimate the rate of groundwater depletion in the Northwest Basins; requires ADWR to submit the consultant's report of its findings to the Speaker of the House, the President of the Senate, Governor, and Secretary of State by December 31, 2019. The appropriation is non-lapsing. | 8 |

HEALTH – CHAPTER 284 (HB 2659)

	<u>Section</u>	
AHCCCS		
<i>Rates and Services</i>		
56.	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.	16
57.	As permanent law, give AHCCCS the authority to require managed care organizations to pay up to 90% of the AHCCCS fee schedule for inpatient behavioral health visits at non-contracted providers, effective July 1, 2018.	6, 26
<i>Counties</i>		
58.	As session law, set the FY 2019 county Arizona Long Term Care System (ALTCS) contributions at \$268,554,800.	10
59.	As session law, set the County Acute Care contribution at \$46,512,900. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.	14
60.	As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.	15

61.	As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2019 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.	13
<i>Hospitals</i>		
62.	As session law, continue to establish FY 2019 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (MIHS), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center. Increase the MIHS distribution to \$113,818,500 in FY 2018 and FY 2019.	12
63.	As session law, continue to require AHCCCS to give priority to rural hospitals in Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Permit local jurisdictions to provide additional local match for Pool 5 distributions.	12
<i>Erroneous Payments</i>		
64.	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.	17
<i>Available Funding</i>		
65.	As session law, continue to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.	25
66.	As permanent law, eliminate the inactive Hospital Loan Residency Fund.	7,8
<i>Reports</i>		
67.	As session law, continue to require AHCCCS and the Department of Health Services (DHS) to submit a joint report to the Legislature and the Governor by January 2, 2019 on hospital costs and charges.	18
68.	As session law, continue to require AHCCCS to report to JLBC on or before January 2, 2019 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.	19
69.	As session law, require AHCCCS and DHS to jointly report by January 1, 2019 on how grant monies for states to address the opioid epidemic included in the federal Consolidated Appropriations Act of 2018 (P.L. 115-141) will supplement the monies appropriated to AHCCCS in the Arizona Opioid Epidemic Act (Laws 2018, 1 st Special Session, Chapter 1).	24
Department of Health Services		
70.	As session law, continue to require all cities and counties to pay 100% of cost of Restoration to Competency treatment in FY 2019. Allow counties to use any source of county revenue to make the transfers.	11
71.	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.	23
72.	As session law, continue to notwithstanding A.R.S. § 5-572 and A.R.S. § 36-108.01 to allow the Health Services Lottery monies to be used for homeless pregnant women services.	22
73.	As session law, continue fee raising authority and an exemption relating to establishing fees for the Bureau of Radiation Control in FY 2019 and continue an intent clause that limits additional revenues to \$561,000.	20
74.	As session law, allow DHS to use the Disease Control Research Fund for AIDS reporting and surveillance.	21
75.	As permanent law, divert 100% of the first \$300,000 of licensing fees for the Radiation Regulatory program into the General Fund; divert 90% of additional fees to the Health Services Licensing Fund and 10% into the General Fund. Eliminate the State Radiologic Technologist Certification Fund and the Radiation Regulatory Fee and transfer all unencumbered and unexpended monies into the Health Services Licensing Fund.	1,2,3,4,5

HIGHER EDUCATION – CHAPTER 281 (SB 1527)

	<u>Section</u>
Community Colleges	
76. As session law, continue to suspend the Operating State Aid funding formula in FY 2019 for Maricopa and Pima Counties.	9
77. As session law, continue to suspend Science, Technology, Engineering and Mathematics and Workforce Programs funding formula for FY 2019 and specify the funding in the General Appropriation Act, which for Pinal would again equal \$96,500.	8
78. As permanent law, allow Coconino Community College to increase its primary property tax levy, subject to approval by voters.	6
79. As permanent law, prohibit community colleges from requiring a student from being a member of a labor organization or participating in an industry apprenticeship program as a prerequisite for course enrollment.	1
Universities	
80. 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).	7
81. As permanent law, modify A.R.S. § 15-1655 to clarify that the Arizona Teacher Academy is established for the 2017-2018 academic year and subsequent years.	3
82. As permanent law, require the universities to annually report on the status of all projects that have been reviewed, approved by, or reported to the Joint Committee on Capital Review (JCCR) that are not yet completed.	5
83. As permanent law, revise the universities' annual cost-containment reporting requirements: modifies reporting requirement on tuition and fee charges compared to historical levels; clarifies reporting requirement on the growth of faculty and administration; requires information on increases in credit hours required for degree programs.	2
84. As permanent law, continue tuition waiver for foster students. The current foster care waiver pilot program is scheduled to expire at the end of FY 2018.	4, 10

HUMAN SERVICES – CHAPTER 282 (SB 1528)

	<u>Section</u>
Department of Child Safety	
85. 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.	6
86. As session law, delays an Auditor General report on the Department of Child Safety caseworker workload from no later than December 2018 to December 2020. Adds a requirement that the report include the difference in caseworker caseloads between field offices.	4
Department of Economic Security	
87. As session law, continue to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if the Department of Economic Security (DES) has reasonable cause to believe that the recipient uses illegal drugs.	5
88. 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
89. As session law, allow the Spinal and Head Injury Trust Fund to be used to fund \$1,900,000 for costs of the Arizona Early Intervention Program in FY 2019.	3
90. As session law, allow the Special Administration Fund to be used for adult services and domestic violence prevention.	2

K-12 EDUCATION – CHAPTER 285 (HB 2663)

	<u>Section</u>
Arizona State Schools for the Deaf and the Blind	
91. As session law, allow Arizona State Schools for the Deaf and the Blind to use monies in the Telecommunication Fund for the Deaf to support the expansion of the Birth to Three program.	24
Department of Education	
<i>Formula Requirements</i>	
92. 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 1.80% for standard inflation.	2,9,11
93. As permanent law, increase the base level by an additional \$210.50 (5.72%) for FY 2019 to incorporate 1) \$65,419,100 for the 1.06% Additional Teacher Salary Increases for FY 2018 and FY 2019 combined (2.12% total) already funded in the FY 2019 Baseline, 2) an additional \$176,200,000 for teacher pay raises in FY 2019, and 3) an additional \$64,100,000 for teacher pay raises in FY 2019 as a bridge to higher Proposition 301 funding that will be available to schools in FY 2022 due to expiring SFB debt service.	9
<i>Funding Formula Changes</i>	
94. As session law, reduce the \$352,442,700 District Additional Assistance suspension and \$18,656,000 Charter Additional Assistance suspension to \$257,469,900 and \$13,628,800, respectively, in FY 2019, and phase out the remaining suspensions by FY 2023.	27,28
95. As session law, eliminate all District Additional Assistance reductions for school districts with fewer than 1,100 students in FY 2019.	27
96. As session law, allocate Results-Based Funding using the same formula that was used in FY 2018, but based on spring 2017 AzMERIT test results. Under permanent law, the Results-Based Funding would be distributed to schools with a letter grade A under the A-F performance rating developed by the State Board of Education.	26
<i>Other</i>	
97. As session law, continue 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.	27
98. As session law, require the Corporation Commission to make all monies collected for K-12 broadband expansion that remain after the 2018 E-Rate cycle available in subsequent years to eligible applicants.	22
99. As permanent law, establish the Computer Science Professional Development Program Fund to accept gifts, donations and grants to fund computer science professional development for district and charter school teachers; require private matching monies, including the dollar value of in-kind contributions, before the expenditure of the second half of the monies appropriated for the Computer Science Professional Development Program. The department shall distribute grants on a first-come first-served basis to school districts and charters that currently do not provide high school computer science instruction.	7
100. As permanent law, require each school district to display on the homepage of its website in a prominent way its individual profile published in the Auditor General's Annual District Spending Report.	18
101. As permanent law, require each school district and charter school to post in a prominent way on the homepage of its website and on its budget forms the amount of its average teacher salary in the current and prior fiscal year and include the increase in dollar and percentage terms. Require the Department of Education (ADE) to submit a report on the information from districts and charter schools statewide to JLBC and OSPB by November 30.	3,10
102. As permanent law, provide the Charter Schools Board authority to close charter schools based on failure to meet financial performance expectations.	1
103. As permanent law, specify a state definition of "rural" for the purposes of aligning eligibility for federal grants for K-12.	7

104.	As permanent law, add social studies to the exam subject areas that can generate bonuses for school districts and charter schools under the College Credit By Examination Incentive Program.	6
105.	As session law, allow Cave Creek Unified School District to increase its general budget limit by \$1,500,000 in FY 2019.	29
School Facilities Board		
106.	As session law, notwithstanding the statutory per-square-foot construction standards for the Benson school approved in the FY 2015 budget.	23
107.	As permanent law, clarify that the per pupil square footage requirements in A.R.S. § 15-2011 should be calculated based on 40 th day ADM. (The FY 2018 K-12 BRB set the calculation at the 40 th day, but Laws 2017, Chapter 320 subsequently changed it back to the 100 th day.)	15,31
108.	As session law, continue the SFB for 4 years through FY 2022.	19,20,21
109.	As permanent law, modify board membership to include a member with experience in public procurement and a member who owns a private construction firm that does not conduct business with schools.	12,25
110.	As permanent law, require SFB to submit a report for review to the JCCR on the fiscal impact of any changes made to the minimum adequacy guidelines.	14
111.	As permanent law, make changes to building renewal grant program, including to require projects to be classified as critical and non-critical and to limit grant fund awards to available funds, with priority given to critical projects.	8,12,13,16
112.	As session law, require a special financial audit to examine SFB building renewal project expenditures.	30
113.	As permanent law, require the State Board of Education to adopt rules for school district procurement of any materials, services, goods, construction or construction services that ensure maximum practicable competition. Allow the Attorney General to investigate allegations of procurement compliance.	4, 17
114.	As permanent law, ban school and district employees from accepting gifts from vendors if the employee is involved in procurement or financial transactions on behalf of the school district. Exclude expenditures on food, beverages, and special events.	4
115.	As permanent law, require school districts to contract with a new audit firm every 3 years and prohibit the district from using the same vendor for consulting services	4
116.	Require school procurement contracts to be awarded to the lowest qualified bidder, effective July 1, 2019.	5, 32

REVENUES – CHAPTER 283 (SB 1529)

	<u>Section</u>	
Department of Agriculture		
117.	As session law, continue fee changing authority and an exemption relating to establishing fees for the Arizona Department of Agriculture in FY 2019. The bill continues an intent clause that limits additional revenues to \$357,000.	10
Arizona Commerce Authority		
118.	As permanent law, reduce the annual deposit into the Arizona Competes Fund from \$11,500,000 to \$5,500,000 in FY 2020 and thereafter.	3
Counties and Cities & Towns		
119.	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 2019, 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, 2018.	11

Department of Education

- 120. As permanent law, shift desegregation programs from primary to secondary property tax levy without loss of funding to school districts. Provision is retroactive to July 1, 2018. Require the county treasurer to determine the descriptor of the desegregation levy as a separate item on tax bills. 2,13

Department of Financial Institutions

- 121. As permanent law, allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department. Was previously a session law. 1

Department of Gaming

- 122. As session law, continue to set the Racing Wagering Assessment at 0.5% in FY 2019 only. 5,13
- 123. As session law, change the fund in which boxing and mixed martial arts-related revenues (except license fees) are deposited in FY 2019 from the General Fund to the Unarmed Combat Subaccount of the Racing Regulation Fund. 8, 13

Department of Insurance

- 124. As session law, continue to suspend the requirement that fees collected by the department be between 95% and 110% of the department’s appropriation. 9

Department of Revenue

- 125. 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). 12
- 126. As permanent law, increase the amount of tax exempt federal retirement or retainer pay of U.S. military retirees, from \$2,500 to \$3,500 in tax year 2019 and later years. 4

Transportation

- 127. As session law, eliminate the FY 2019 appropriation of Highway Expansion and Extension Loan Program Fund monies to local HURF in lieu of the Highway Safety fee. 6,13
- 128. As session law, eliminate the extra \$30,000,000 distribution to local HURF in FY 2020 in lieu of the Highway Safety Fee. 7

FY 2019 GENERAL APPROPRIATION ACT PROVISIONS – CHAPTER 276 (SB 1520)

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

	<u>Section</u>
Arizona Commerce Authority	
129. 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 2019. The allocation will be reduced to \$15,500,000 starting in FY 2020.	119
Counties and Cities & Towns	
130. 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 additional \$500,000 to Graham County.	115
131. As session law, appropriate \$550,050 in FY 2019 to all counties with populations over 200,000 people and under 900,000 according to the 2010 Census. Was previously a one-time appropriation.	115
132. As session law, in accordance with A.R.S. § 9-601, appropriate \$22,996,250 from the General Fund in FY 2019 for the Phoenix Convention Center.	134

- 133. As session law, appropriate \$11,260,000 to all counties in an amount proportionate to their relative population in the 2010 census to offset county cost-sharing for the Department of Juvenile Corrections. Was \$8,000,000 in FY 2018. 116
- 134. As session law, in accordance with A.R.S. § 42-5031, continue to provide sales tax revenues, estimated at \$14,000,000 in FY 2019, to the Rio Nuevo Multipurpose Facility District. 135
- 135. As session law, appropriate \$1,655,500 in FY 2019 to the 8 smallest counties, according to the 2010 Census, to offset the increase in Elected Officials Retirement Program liability payments. 116
- 136. As session law, appropriate \$1,000,000 to PSPRS for deposit in the employer account of the Prescott fire department group to offset increased pension liability. 128

Department of Education

- 137. As session law, continue to defer \$930,727,700 in Basic State Aid payments from FY 2019 to FY 2020. Appropriate \$930,727,700 in FY 2020 for these deferred payments. Continue to exempt school districts with less than 600 students from the K-12 rollover. Allow ADE to make the rollover payment no later than July 12, 2019. 144
- 138. As session law, continue to require school districts to include in the FY 2019 revenue estimates that they use for computing their FY 2019 tax rates the rollover monies that they will receive for FY 2019 in July 2019. 144

Debt Service

- 139. As session law, continue to appropriate \$84,112,000 from the General Fund to the Arizona Department of Administration in FY 2019 for a debt service payment on the 2010 sale and leaseback of state buildings. 133

Revenues

- 140. As session law, continue to specify revenue and expenditure estimates for FY 2018, FY 2019, FY 2020, and FY 2021. 151
- 141. As session law, continue to require the Executive Branch to provide JLBC preliminary estimates of FY 2018 ending balances by September 15, 2018. Require JLBC Staff to report to JLBC by October 15, 2018 as to whether FY 2019 revenues and ending balance are expected to change by more than \$50,000,000 from budgeted projections. 151

Statewide

- 142. 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. 147
- 143. As session law, continue to require ADOA to compile a report on Full-Time Equivalent (FTE) Position usage in FY 2019 in all agencies and provide it to the JLBC Director by October 1, 2019. The Universities are exempt from the report but are required to report separately. 148
- 144. As session law, continue to require each agency to submit a report to the JLBC Director by October 1, 2018 on the number of filled appropriated and non-appropriated FTE Positions by fund source as of September 1, 2018. 149
- 145. 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. 150

General

- 146. As session law, continue to define “*” as designating an appropriation exempt from lapsing. 152
- 147. As session law, continue to define “expenditure authority” as continuously appropriated monies included in individual line items of appropriations. 153
- 148. 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. 154

FY 2019 MAJOR FOOTNOTE CHANGES

The Baseline includes 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	
149. Modify the existing footnote to move ADOA's semi-annual Building Renewal Report from July to May. (Capital)	CO 3
150. Add annual report on building renewal expenditures to ADOT and Game and Fish on the status of all capital projects reviewed by JCCR. (Capital)	CO 3
151. Modifies footnote requiring ADOA to report to the JLBC by August 1, 2018 on its vehicle replacement maintenance savings and eliminates the review requirement.	6
152. Modifies footnote from FY 2017 Capital Outlay Bill to extend the lapsing date for a \$120,000 building renewal appropriation for the repair of the Works Progress Administration building at the State Fairgrounds through FY 2020. (Capital)	CO 23
153. Adds footnote requiring ADOA to report to JCCR by November 15, 2018 for review of its plan for the relocation of state agencies and the renovation of Capitol Mall buildings. (Capital).	CO 3
Arizona Department of Administration - Automation Projects Fund (APF)	
154. Modifies footnote requiring ADOA to submit a quarterly report on project expenditures, deliverables, and timeline for completion for all projects approved by ITAC, not just those funded in ADOA's budget.	118
155. Adds footnote stipulating that FY 2018 APF appropriations are non-lapsing through FY 2019 and that FY 2019 APF appropriations are non-lapsing through FY 2020.	2, 118
156. Adds footnote allowing ADOA to repurpose HRIS replacement feasibility study to upgrade the system.	2
157. Adds footnote clarifying that transfers into the APF are not considered appropriations. Only direct appropriations out of the APF shall be considered appropriations.	3, 143
AHCCCS	
158. Modifies footnote requiring AHCCCS to report to JLBC on the progress of implementing the <i>Arnold v. Sarn</i> lawsuit from semi-annually to annually.	10
159. Modifies footnote requiring AHCCCS to report to JLBC on Medicaid reconciliation payments from semi-annually to annually.	10
160. Adds footnote stating that AHCCCS' appropriation includes funding for a 3% provider rate increase for skilled nursing facilities and assisted living facilities in FY 2019, in addition to any actuarially determined rate adjustments.	10
161. Adds footnote stating that AHCCCS' appropriation includes funding to increase inpatient and outpatient hospital rates by 2.5% in FY 2019 based on hospital performance on established quality measures. The appropriation is in addition to any actuarially determined rate adjustments.	10
162. Adds footnote that \$100,000 of AHCCCS' operating budget shall be used for a suicide prevention coordinator to assist school districts and charter schools. Requires that AHCCCS, in consultation with ADE, report on the coordinator's accomplishments by September 1, 2019.	10
Registrar of Contractors	
163. Deletes footnote requiring JLBC review of any transfer to or from the Office of Administrative Hearings Costs line item.	20
Corporation Commission	
164. Adds footnote requiring the commission to report to the JLBC by August 1, 2018 on total expenditures from the Small Drinking Water Systems Fund in FY 2018 (continuation of an earlier Budget Reconciliation Bill provision).	21

Department of Corrections

165. Adds footnote requiring the Department of Corrections to transfer an amount to the PSPRS for CORP liabilities 22

Department of Child Safety

166. Removes footnote requiring JLBC review of progress in meeting Moss-Adams audit requirements. 17
167. Removes footnote requiring JLBC review of the expenditure plan for the Retention Pay line item. 17
168. Adds footnote stipulating that DCS' FY 2018 litigation expenses appropriation is non-lapsing through FY 2019 and that DCS' FY 2019 litigation expenses appropriation is non-lapsing through FY 2020. 17, 103
169. Modifies footnote establishing benchmarks to require DCS to reduce the out-of-home population to 13,964 by June 30, 2019. Represents (2)% reduction each quarter in FY 2019 relative to the January 2018 population of 15,139. 17
170. Remove footnotes requiring reports on monthly financial, staffing, and hiring information; SB 1518 made these requirements permanent. 17
171. Adds footnote requiring DCS to revert its \$2,700,000 appropriation for backlog privatization from FY 2017 to the General Fund on June 30, 2018. 104

Department of Economic Security

172. Adds footnote requiring the department to report to JLBC by September 1, 2019 on the costs of operating the Arizona Training Program at Coolidge in FY 2019. 29
173. Adds footnote requiring DES to report to JLBC on or before December 1, 2018 on its plans to reduce screening costs associated with the Arizona Early Intervention Program. 29

Department of Education

174. Adds footnotes stipulating that any monies received by ADE for Proposition 301 purposes in excess of the budgeted amounts are available for expenditure. 31
175. Adds footnote stipulating that any monies received by the department for the Instructional Improvement Fund in excess of the budgeted amounts are available for expenditure. 31
176. Adds footnotes stipulating that it is the intent of the Legislature and Governor that the additional increase to the Base Level be used for teacher salary increases, and that school districts or other entities that receive additional funding may use the monies for teacher compensation. 31
177. Adds footnote allowing ADE to transfer up to \$1,600,000 from Basic State Aid to Results-Based Funding to cover its FY 2018 shortfall without requiring JLBC review. 106
178. Adds footnote increasing the Base Support Level for Mayer Unified School District by \$300,000 in FY 2018 and appropriating that amount from the General Fund in FY 2018. 125

Department of Forestry and Fire Management

179. Adds footnote allowing \$210,000 and \$465,000, respectively, of the department's FY 2018 Hazardous Vegetation and Post-Release Firefighting Crews Special Line appropriations to be used for FY 2017 and FY 2018 fire-suppression expenses. 39

Arizona Game and Fish Department

180. Adds footnote stipulating that monies appropriated for the Sterling Springs Hatchery Renovation in FY 2017 are made nonlapsing through FY 2019. (Capital). CO 23
181. Adds a footnote that allows Game and Fish to transfer \$1,000,000 from the Watercraft Grants line item to the operating budget upon JLBC's review of an expenditure plan for these monies. 41

Office of the Governor

182. Adds footnote stipulating that \$500,000 of the \$1,500,000 General Fund appropriation for deposit in the Foster Youth Education Success Fund may be spent upon receipt of an equivalent amount of matching funds from gifts, grants and donations. The Office of the Governor shall make an accounting of the matching monies received to JLBC to determine the qualification for state match. The General Fund appropriation would be non-lapsing. 126

Office of the Governor - Office of Strategic Planning and Budgeting

183. Adds OSPB as a recipient of any report submitted by elected officials and the Judiciary to the JLBC.

Department of Health Services

184. Adds footnote requiring DHS to distribute monies appropriated for homeless pregnant women services to non-profit organizations located in a county with more than 3,000,000 persons and whose primary function is to provide shelter, food, clothing, and transportation services to homeless pregnant women. 45

Industrial Commission of Arizona

185. As session law, revert all monies remaining from the FY 2012 non-lapsing OSHA Review Board appropriation to the General Fund at the end of FY 2018. 109

State Land Department

186. Adds footnote requiring the Land Department to provide a report to the JLBC by November 15, 2018 on the effectiveness of its FY 2018 innovation projects (professional service contracts, reassessment of federal permits, right-of-way-digitization, survey assets, workflow digitization) and its planned FY 2019 projects. 54

Legislature

187. Adds footnote allowing all remaining funds deposited to the Border Security Trust Fund in FY 2014 and FY 2017 to be disbursed to Cochise County as directed by the Joint Border Security Advisory Committee. This will allow an additional \$432.10 to go to Cochise County. 114

Arizona Medical Board

188. Deletes footnote permitting the board to use up to 7% of the Medical Board Fund balance remaining at the end of each fiscal year for a performance based incentive program. The program would continue to be funded through a line item. 59

Department of Public Safety

189. Modifies footnote to require DPS to report to the JLBC and OSPB by September 1, 2018 on its expenditure plan for the Border Strike Task Force Local Support line item and eliminates the review requirement. 78

190. Adds footnote requiring DPS to report to JCCR for review on its procurement process for modular units. (Capital) CO 14

Department of Revenue

191. Expand existing enforcement report to include Transaction Privilege Tax delinquencies. 83

Secretary of State

192. Restores FY 2017 footnote requiring any transfer to or from the amount appropriated to the Election Services line item to be reviewed by JLBC. (No election funding in original FY 2018 budget). 85

193. Adds footnote that makes new non-voter registration HAVA monies non-lapsing through FY 2020. 85

194. Adds footnote requiring JLBC review of use of new HAVA funds not used for the development of voter registration system. 85

Department of Transportation

195. Adds footnote requiring all expenditures for vehicle and heavy equipment replacement to be funded only from the Vehicle Replacement line item. 89

196. As session law, make non-lapsing through FY 2019 an FY 2018 appropriation to equip and furnish a new Flagstaff office building. 130

Universities

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| 197. | Eliminates footnote prohibiting the universities from expending their General Fund appropriations for contracted lobbyists. (Laws 2017, Chapter 315 replaced this footnote language with permanent law in A.R.S. § 15-1650.04.) | 93-95 |
| 198. | Modifies footnote on the Universities' report on tuition revenues expenditure plan to JLBC for its review to specify that the plan shall include the use of all projected tuition and fee revenues by expenditure category. | 92 |
| 199. | Adds footnote for the new Arizona State University (ASU) Economic Development line item requiring that the monies be used to establish an office in Guanajato, Mexico to promote trade and economic development. | 93 |
| 200. | Adds footnote requiring that at least \$100,000 of the appropriation to the School of Civic and Economic Thought and Leadership at ASU be used to support research on the Arizona State Constitution and the development of a civics and constitutionalism curriculum for K-12 and postsecondary education institutions. | 132 |
| 201. | Adds footnote requiring that monies appropriated to the Northern Arizona University for the Economic Policy Institute be deposited into a separate account and used only for the direct operations of the institute. Requires a report from the Institute by October 1, 2018. | 132 |
| 202. | Modifies footnotes to require that all appropriations and external donations, including remaining balances from prior years, to ASU for the School of Civic and Economic Thought and Leadership and to the University of Arizona for the Center for the Philosophy of Freedom be deposited into separate accounts from other university funds. | 93,95,132 |

Department of Veterans' Services

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| 203. | As session law, notwithstanding the requirement that the Department of Veterans' Services receive a 65% match of the total cost to build a veterans' home. Allow the department to use Veterans' Home Trust Fund monies for the construction of veterans' homes in Yuma and Flagstaff. (Capital) | CO
1-2, 20-22 |
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Department of Water Resources

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|------|---|----|
| 204. | Modifies footnote to expand uses of Lower Colorado Litigation line item to include all Colorado River litigation. | 98 |
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**FY 2018
GENERAL FUND ADJUSTMENTS**

FY 2018 GENERAL FUND ADJUSTMENTS

	FY 2017 Actual	FY 2018 Original ^{1/}	Baseline Adjustments	FY 2018 JLBC Baseline	Session Changes	FY 2018 Enacted
REVENUES						
Ongoing Revenues	\$10,020,984,800	\$10,471,419,400	(\$142,099,600)	\$10,329,319,800	\$100,000,000	\$10,429,319,800
Previously Enacted Changes		(107,200,000)	107,200,000 ^{2/}			
Newly Enacted Changes		(9,982,800)	9,982,800 ^{2/}			
Urban Revenue Sharing	(663,582,200)	(680,770,100)		(680,770,100)		(680,770,100)
Net Ongoing Revenues	\$9,357,402,600	\$9,673,466,500	(\$24,916,800)	\$9,648,549,700	\$100,000,000	\$9,748,549,700
One-time Financing Sources						
Balance Forward	\$284,015,000	\$170,976,500	(\$20,105,500)	\$150,871,000		\$150,871,000
AHCCCS Behavioral Health Transfer	35,000,000					
Moody's Settlement Fund Transfer		8,172,700		8,172,700		8,172,700
Prescription Rebate Fund Transfer	30,000,000					
One-Time Base Revenue					72,000,000	72,000,000
Fund Transfers	80,091,500				46,219,000	46,219,000
Subtotal One-time Revenues	\$429,106,500	\$179,149,200	(\$20,105,500)	\$159,043,700	\$118,219,000	\$277,262,700
Total Revenues	\$9,786,509,100	\$9,852,615,700	(\$45,022,300)	\$9,807,593,400	\$218,219,000	\$10,025,812,400
EXPENDITURES						
Operating Budget Appropriations	\$9,380,809,400	\$9,694,061,800	\$14,000,000	\$9,708,061,800	\$500,500	\$9,708,562,300
FY 2018 Supplementals			(1,061,200)	(1,061,200)	1,061,200	
Administrative Adjustments		100,000,000		100,000,000		100,000,000
Revertments		(140,682,500)		(140,682,500)	(29,306,300)	(169,988,800)
Subtotal Ongoing Expenditures	\$9,380,809,400	\$9,653,379,300	\$12,938,800	\$9,666,318,100	(\$27,744,600)	\$9,638,573,500
One-time Expenditures						
Capital Outlay	\$11,555,200	\$5,700,000		\$5,700,000		\$5,700,000
Transportation Funding	86,500,000					
Operating One-Time Spending	139,467,800	180,142,500		180,142,500		180,142,500
FY 17/FY 18 One-Time Supplementals	17,305,700				21,045,300	21,045,300
AHCCCS One-Time Savings		(24,130,900)		(24,130,900)		(24,130,900)
Subtotal One-time Expenditures	\$254,828,700	\$161,711,600	\$0	\$161,711,600	\$21,045,300	\$182,756,900
Total Expenditures	\$9,635,638,100	\$9,815,090,900	\$12,938,800	\$9,828,029,700	(\$6,699,300)	\$9,821,330,400
Ending Balance ^{3/}	\$150,871,000	\$37,524,800	(\$57,961,100)	(\$20,436,300)	\$224,918,300	\$204,482,000
Structural Balance ^{4/}	(\$23,406,800)	\$20,087,200	(\$37,855,600)	(\$17,768,400)	\$127,744,600	\$109,976,200

^{1/} Reflects the FY 2018 Budget as published in the *FY 2018 Appropriations Report*.

^{2/} Reflects forecast adjustments to revenue and other technical adjustments in January 2018 as part of the FY 2019 JLBC Baseline. Baseline adjustments move previously enacted changes to ongoing revenue.

^{3/} This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

^{4/} This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

FY 2018 GENERAL FUND ADJUSTMENTS

FY 2018 Budget Revision — The preceding chart illustrates the changes to the FY 2018 budget from the publication of the *FY 2018 Appropriations Report* in June 2017 (incorporating changes through the 53rd Legislature, 1st Regular Session) to the current estimate in this *FY 2019 Appropriations Report*. The chart includes the changes from the passage of bills in the 2nd Regular Session and 1st Special Session of the 53rd Legislature addressing the FY 2018 budget.

Original Budget Estimate — At the time of the publication of the *FY 2018 Appropriations Report* in June 2017, the FY 2018 budget was anticipated to have a \$38 million surplus.

Mid-Year Surplus — As estimated in January 2018, higher-than-expected revenues together with other changes led to the state’s projected FY 2018 ending balance of \$38 million decreasing to a shortfall of \$(20) million. The components of this \$(58) million shift were as follows:

	<u>(\$ in M)</u>
• Decreased FY 2017 Carry-Forward	(20)
• Decrease in FY 2018 Ongoing Revenues	(25)
• Supplemental FY 2018 Expenditures	<u>(13)</u>
Total	<u>\$(58)</u>

As enacted in May 2017, the original FY 2018 budget included \$171 million in revenues from an FY 2017 carry-forward balance. The FY 2017 revenue growth at the end of the year, however, was slightly less than originally budgeted, which produced a FY 2017 ending balance of \$151 million, or \$(20) million less than budgeted.

A small revision to FY 2018 growth rates based on the January consensus forecast decreased revenues by \$(24) million, which was further modified by revisions to tax law estimates totaling \$(1) million, for a net decrease in FY 2018 ongoing revenues of \$(25) million.

Finally, the budget was estimated to require an additional \$13 million in spending, including \$11 million for higher-than-projected K-12 spending in the Arizona Department of Education (ADE), \$4 million for higher-than-projected pass-through of tax revenues associated with the Rio Nuevo District, \$449,100 in the Land Department, and \$10 million for foregone efficiency reversion savings, offset by \$(9) million in lower-than-projected caseload savings in AHCCCS and \$(3) million of such savings in the Department of Economic Security (DES).

2017 Legislative Session — Laws 2018, Chapter 276, the General Appropriation Act, made a series of changes in

the FY 2018 budget. These adjustments changed the projected ending shortfall of \$(20) million to a projected ending balance of \$205 million, the result of ongoing and one-time revenues in addition to one-time FY 2018 supplemental expenditure changes.

The budget includes \$172 million in new "base" General Fund revenues, which were scored as \$100 million in ongoing revenues and \$72 million in one-time revenues. The budget also includes \$46 million in one-time fund transfers from a variety of state funds into the General Fund.

The budget also includes \$(29) million in higher estimated reversionments for lower-than-anticipated spending in AHCCCS and DES. The higher than anticipated reversionments are in lieu of the \$(12) million of ex-appropriations in the Baseline, for net savings of \$(17) million compared to the Baseline. In addition, based on revised caseload figures, the budget saved \$(11) million compared to the Baseline for not including an ADE supplemental.

These ex-appropriations were offset by \$21 million of net new supplementals, including \$10 million to AHCCCS from the Opioid legislation in the 1st Special Session for substance use disorder services, \$10 million to the School Facilities Board for additional Building Renewal Grants, \$4.1 million for extra FY 2017 fire expenses in the Department of Forestry and Fire Management, and \$2.5 million to the Secretary of State for the costs of the Special Election in the 8th Congressional District.

With an estimated FY 2018 ending shortfall in January of \$(20) million, \$172 million in new General Fund revenues, \$46 million in fund transfers, \$(28) million in caseload savings, and \$21 million in subsequent net new spending, the FY 2018 budget is estimated to have an ending balance of \$205 million.

Other Fund Adjustments — The FY 2018 revisions included \$17 million in net Other Fund supplementals. The largest supplemental was \$16 million from the Risk Management Fund in the Department of Administration for federal reimbursements. Other supplementals included \$500,000 from the Risk Management Fund in the Attorney General for election-related litigation costs and \$400,600 to both the Attorney General and the Department of Health Services from the Opioid legislation in the 1st Special Session.

FY 2018 GENERAL FUND CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	GF FY 2018 Approp Rpt June 2017	GF Adjustments	GF FY 2018 Supplementals 2/	GF Enacted FY 2018
<u>BUDGET UNITS</u>				
Administration, Arizona Department of	\$10,365,300			\$10,365,300
Administration, Arizona Department of Automation Projects Fund	12,300,000			12,300,000
Administrative Hearings, Office of	870,900			870,900
African-American Affairs, Arizona Commission of	125,800			125,800
Agriculture, Arizona Department of	9,563,700		40,300	9,604,000
AHCCCS	1,775,264,100		10,000,000	1,785,264,100
Attorney General - Department of Law	26,344,200			26,344,200
Charter Schools, State Board for	1,200,600			1,200,600
Child Safety, Department of	379,790,800			379,790,800
Commerce Authority, Arizona	21,800,000			21,800,000
Community Colleges, Arizona	55,086,500			55,086,500
Corporation Commission	621,500			621,500
Corrections, State Department of	1,067,624,800		16,600	1,067,641,400
County Funding	15,650,700			15,650,700
Deaf and the Blind, Schools for the	21,932,000			21,932,000
Economic Opportunity, Office of	484,100			484,100
Economic Security, Department of	586,110,300			586,110,300
Education, State Board of	1,153,600			1,153,600
Education, Department of	4,226,958,400		300,000	4,227,258,400
Emergency and Military Affairs, Department of	11,238,300			11,238,300
Environmental Quality, Department of	2,823,600			2,823,600
Equal Opportunity, Governor's Office of	191,900			191,900
Equalization, State Board of	646,400			646,400
Executive Clemency, Board of	963,500			963,500
Financial Institutions, State Department of	2,201,000			2,201,000
Forestry and Fire Management, Arizona Department of	11,922,500		4,078,000	16,000,500
Gaming, Department of	1,779,500			1,779,500
Governor, Office of the	8,871,400			8,871,400
Governor's Office of Strategic Planning and Budgeting	2,014,600			2,014,600
Health Services, Department of	87,669,400		900	87,670,300
Historical Society, Arizona	3,179,800			3,179,800
Historical Society, Prescott	840,200			840,200
Housing, Department of	830,000			830,000
Insurance, Department of	5,878,300			5,878,300
Judiciary				
Supreme Court	18,812,000			18,812,000
Court of Appeals	14,723,000			14,723,000
Superior Court	77,183,700			77,183,700
SUBTOTAL - Judiciary	110,718,700	0	0	110,718,700
Juvenile Corrections, Department of	19,549,800			19,549,800
Land Department, State	12,365,900		449,100	12,815,000
Legislature				

	GF FY 2018 Approp Rpt June 2017	GF Adjustments	GF FY 2018 Supplementals 2/	GF Enacted FY 2018
Auditor General	18,688,800			18,688,800
House of Representatives	13,419,100			13,419,100
Joint Legislative Budget Committee	2,513,800			2,513,800
Legislative Council	8,278,400			8,278,400
Senate	9,548,100			9,548,100
SUBTOTAL - Legislature	52,448,200	0	0	52,448,200
Mine Inspector, State	1,226,800			1,226,800
Navigable Stream Adjudication Commission	125,500			125,500
Postsecondary Education, Commission for	1,881,800			1,881,800
Public Safety, Department of	109,614,200			109,614,200
Public Safety Personnel Retirement System	6,000,000			6,000,000
Radiation Regulatory Agency	787,600			787,600
Real Estate Department, State	3,028,000			3,028,000
Revenue, Department of	31,291,300		42,400	31,333,700
School Facilities Board	292,286,600		10,000,000	302,286,600
Secretary of State	12,190,100		2,500,000	14,690,100
Tax Appeals, State Board of	268,300		11,100	279,400
Tourism, Office of	7,112,000			7,112,000
Transportation, Department of	50,500			50,500
Treasurer, State	1,205,100			1,205,100
Tribal Relations, Governor's Office on	58,000			58,000
Universities				
Board of Regents	6,909,300			6,909,300
Arizona State University	320,259,000			320,259,000
Northern Arizona University	108,612,800			108,612,800
University of Arizona - Main Campus	199,600,900			199,600,900
University of Arizona - Health Sciences Center	69,437,700			69,437,700
SUBTOTAL - Universities	704,819,700	0	0	704,819,700
Veterans' Services, Department of	6,115,800			6,115,800
Water Resources, Department of	16,001,900			16,001,900
OPERATING BUDGET TOTAL	\$9,743,443,500	\$0	\$27,438,400	\$9,770,881,900
Unallocated HITF One-Time Employer Premium	15,800			15,800
Capital Outlay - Building Renewal/Projects	5,700,000			5,700,000
Capital Outlay - 2010 Leaseback Debt Service	84,115,100			84,115,100
Capital Outlay - Phoenix Convention Center	22,499,000			22,499,000
Capital Outlay - Rio Nuevo District	10,000,000	4,000,000		14,000,000
Executive Reductions/Efficiency Savings	(10,000,000)	10,000,000		0
Reversion of FY 2016 Special Election			(2,962,600)	(2,962,600)
Reversion of FY 2017 Backlog Privatization	0		(2,700,000)	(2,700,000)
ADOT I-10 Project Reversion (Equipment Sales)	0		(230,000)	(230,000)
Administrative Adjustments	100,000,000			100,000,000
Reversions	(140,682,500)	(29,306,300)		(169,988,800)
GRAND TOTAL	\$9,815,090,900	(\$15,306,300)	\$21,545,800	\$9,821,330,400

GF FY 2018 Approp Rpt June 2017	GF Adjustments	GF FY 2018 Supplementals	GF Enacted FY 2018
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1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2018 Appropriations Report* and its final FY 2018 appropriation, excluding capital appropriations.

2/ Reflects changes enacted in the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) and additional appropriations in the 1st Special Session and 2nd Regular Session. Any supplementals enacted prior to the 2nd Regular Session are reflected in the Adjustments column. (There were no supplementals in this category for FY 2018.)

FY 2018 OTHER FUNDS CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals <u>2/</u>	OF Enacted FY 2018
<u>BUDGET UNITS</u>				
Accountancy, State Board of				
Board of Accountancy Fund	\$2,042,200			\$2,042,200
Acupuncture Board of Examiners				
Acupuncture Board of Examiners Fund	185,500			185,500
Administration, Arizona Department of				
Administration - AFIS II Collections Fund	375,900			375,900
Air Quality Fund	927,300			927,300
Arizona Financial Information System Collections Fund	9,457,500			9,457,500
Automation Operations Fund	24,067,000			24,067,000
Capital Outlay Stabilization Fund	18,159,900		4,500	18,164,400
Corrections Fund	573,600			573,600
Federal Surplus Materials Revolving Fund	465,700			465,700
Information Technology Fund	2,948,900			2,948,900
Motor Vehicle Pool Revolving Fund	10,154,100			10,154,100
Personnel Division Fund	12,951,500		8,200	12,959,700
Risk Management Revolving Fund	90,951,400		15,812,200	106,763,600
Special Employee Health Insurance Trust Fund	5,302,000			5,302,000
Special Services Revolving Fund	812,300			812,300
State Surplus Materials Revolving Fund	2,960,600			2,960,600
State Web Portal Fund	5,551,600			5,551,600
Telecommunications Fund	1,858,700			1,858,700
Total - Arizona Department of Administration	<u>187,518,000</u>	<u>0</u>	<u>15,824,900</u>	<u>203,342,900</u>
Administration, Arizona Department of -				
Automation Projects Fund	55,761,900			55,761,900
Agriculture, Arizona Department of				
Air Quality Fund	1,441,500			1,441,500
Nuclear Emergency Management Fund	275,000			275,000
Total - Arizona Department of Agriculture	<u>1,716,500</u>	<u>0</u>	<u>0</u>	<u>1,716,500</u>
AHCCCS				
Budget Neutrality Compliance Fund	3,655,300			3,655,300
Children's Health Insurance Program Fund	117,688,200			117,688,200
Prescription Drug Rebate Fund - State	145,691,200			145,691,200
Substance Abuse Services Fund	2,250,200			2,250,200
Tobacco Products Tax Fund Emergency Health Services Account	19,244,300			19,244,300
Tobacco Tax and Health Care Fund Medically Needy Account	72,998,200			72,998,200
Total - AHCCCS	<u>361,527,400</u>	<u>0</u>	<u>0</u>	<u>361,527,400</u>
Arts, Arizona Commission on the				
Budget Stabilization Fund	1,500,000			1,500,000
Athletic Training, Board of				

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals <u>2/</u>	OF Enacted FY 2018
Athletic Training Fund	120,600			120,600
Attorney General - Department of Law				
Antitrust Enforcement Revolving Fund	246,300			246,300
Attorney General Legal Services Cost Allocation Fund	2,080,400			2,080,400
Collection Enforcement Revolving Fund	6,920,900			6,920,900
Consumer Protection-Consumer Fraud Rev. Fund	6,335,600			6,335,600
Consumer Restitution and Remediation Revolving Fund - Consumer Remediation Subaccount	0		400,600	400,600
Interagency Service Agreements Fund	16,500,800			16,500,800
Internet Crimes Against Children Enforcement Fund	900,000			900,000
Risk Management Revolving Fund	9,468,600		500,000	9,968,600
Victims' Rights Fund	3,761,300			3,761,300
Total - Attorney General - Department of Law	<u>46,213,900</u>	<u>0</u>	<u>900,600</u>	<u>47,114,500</u>
Automobile Theft Authority				
Automobile Theft Authority Fund	5,301,400			5,301,400
Barbers, Board of				
Board of Barbers Fund	345,800			345,800
Behavioral Health Examiners, Board of				
Board of Behavioral Health Examiners Fund	1,777,800			1,777,800
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
Risk Management Revolving Fund	2,471,200			2,471,200
Total - Department of Child Safety	<u>180,610,300</u>	<u>0</u>	<u>0</u>	<u>180,610,300</u>
Chiropractic Examiners, State Board of				
Board of Chiropractic Examiners Fund	455,100			455,100
Contractors, Registrar of				
Registrar of Contractors Fund	12,268,400			12,268,400
Corporation Commission				
Arizona Arts Trust Fund	51,600			51,600
Investment Management Regulatory and Enforcement Fund	717,500			717,500
Public Access Fund	6,638,100			6,638,100
Securities Regulatory and Enforcement Fund	4,969,300			4,969,300
Utility Regulation Revolving Fund	14,275,900			14,275,900
Total - Corporation Commission	<u>26,652,400</u>	<u>0</u>	<u>0</u>	<u>26,652,400</u>
Corrections, State Department of				
Alcohol Abuse Treatment Fund	555,500			555,500
Corrections Fund	30,312,300			30,312,300
Inmate Store Proceeds Fund	386,300			386,300

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals <u>2/</u>	OF Enacted FY 2018
Penitentiary Land Fund	2,062,500			2,062,500
Prison Construction and Operations Fund	12,500,000			12,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,661,500			2,661,500
State Education Fund for Correctional Education	675,000			675,000
Transition Program Fund	2,400,100			2,400,100
Total - State Department of Corrections	<u>51,553,200</u>	<u>0</u>	<u>0</u>	<u>51,553,200</u>
Cosmetology, Board of				
Board of Cosmetology Fund	1,864,500			1,864,500
Criminal Justice Commission, Arizona				
Criminal Justice Enhancement Fund	651,300			651,300
Drug and Gang Prevention Resource Center Fund	605,000			605,000
Inmate Store Proceeds Fund	750,000			750,000
Penitentiary Land Fund	1,000,000			1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,000,000			1,000,000
State Aid to County Attorneys Fund	973,700			973,700
Victim Compensation and Assistance Fund	4,222,600			4,222,600
Total - Arizona Criminal Justice Commission	<u>9,202,600</u>	<u>0</u>	<u>0</u>	<u>9,202,600</u>
Deaf and the Blind, Arizona Schools for the Schools for the Deaf and the Blind Fund	11,878,700			11,878,700
Deaf and the Hard of Hearing, Comm. for the Telecommunication Fund for the Deaf	4,622,600			4,622,600
Dental Examiners, State Board of				
Dental Board Fund	1,229,900			1,229,900
Economic Security, Department of				
Child Support Enforcement Administration Fund	17,267,400			17,267,400
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	2,800,000			2,800,000
Long Term Care System Fund	26,561,500			26,561,500
Public Assistance Collections Fund	422,100			422,100
Special Administration Fund	2,951,800			2,951,800
Spinal and Head Injuries Trust Fund	2,326,400			2,326,400
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>294,107,700</u>	<u>0</u>	<u>0</u>	<u>294,107,700</u>
Education, Department of				
Automation Projects Fund	3,000,000			3,000,000
Budget Stabilization Fund	2,600,000			2,600,000

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals 2/	OF Enacted FY 2018
Department of Education Empowerment				
Scholarship Account Fund	1,202,000			1,202,000
Department of Education Professional				
Development Revolving Fund	2,700,000			2,700,000
Permanent State School Fund	235,343,500			235,343,500
Proposition 301 Fund	7,000,000			7,000,000
Teacher Certification Fund	2,363,200			2,363,200
Tribal College Dual Enrollment Program Fund	250,000			250,000
Total - Department of Education	254,458,700	0	0	254,458,700
Emergency and Military Affairs, Department of				
Nuclear Emergency Management Fund	1,438,400			1,438,400
Environmental Quality, Department of				
Air Quality Fund	7,381,900			7,381,900
Emergency Response Fund	132,800			132,800
Emissions Inspection Fund	30,610,100			30,610,100
Hazardous Waste Management Fund	1,744,300			1,744,300
Indirect Cost Recovery Fund	13,464,000			13,464,000
Permit Administration Fund	10,876,300			10,876,300
Recycling Fund	2,361,300			2,361,300
Safe Drinking Water Program Fund	1,800,000			1,800,000
Solid Waste Fee Fund	1,247,400			1,247,400
Underground Storage Tank Fund Revolving Fund	22,000			22,000
Water Quality Fee Fund	10,582,300			10,582,300
Total - Department of Environmental Quality	80,222,400	0	0	80,222,400
Exposition and State Fair Board, Arizona				
Arizona Exposition and State Fair Fund	12,153,300			12,153,300
Financial Institutions, Department of				
Financial Services Fund	3,226,800			3,226,800
Total - Department of Financial Institutions	3,226,800	0	0	3,226,800
Funeral Directors and Embalmers, Board of				
Board of Funeral Directors' and Embalmers' Fund	378,200			378,200
Game and Fish Department, Arizona				
Capital Improvement Fund	1,001,200			1,001,200
Game and Fish Fund	37,110,600			37,110,600
Game, Nongame, Fish and Endangered				
Species Fund	346,800			346,800
Watercraft Licensing Fund	5,834,400			5,834,400
Wildlife Endowment Fund	16,200			16,200
Total - Arizona Game and Fish Department	44,309,200	0	0	44,309,200
Gaming, Department of				
Tribal-State Compact Fund	2,105,400			2,105,400
Racing Regulation Fund	2,167,900			2,167,900
State Lottery Fund	300,000			300,000
Arizona Benefits Fund	11,050,900			11,050,900
Total - Department of Gaming	15,624,200	0	0	15,624,200

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals <u>2/</u>	OF Enacted FY 2018
Health Services, Department of				
Arizona State Hospital Fund	6,808,800			6,808,800
ASH Land Earnings Fund	970,000			970,000
Capital Outlay Stabilization Fund	1,559,900			1,559,900
Child Fatality Review Fund	96,900			96,900
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund	0		400,600	400,600
Emergency Medical Services Operating Fund	6,248,100			6,248,100
Environmental Laboratory Licensure Revolving Fund	930,400			930,400
Federal Child Care and Development Fund Block Grant	887,900			887,900
Health Services Licensing Fund	9,372,700			9,372,700
Indirect Cost Fund	9,581,300			9,581,300
Newborn Screening Program Fund	7,674,900			7,674,900
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	3,637,400			3,637,400
Total - Department of Health Services	<u>52,606,500</u>	<u>0</u>	<u>400,600</u>	<u>53,007,100</u>
Homeopathic and Integrated Medicine				
Examiners, Board of Board of Homeopathic and Integrated Medicine Examiners' Fund	89,000			89,000
Housing, Department of				
Housing Trust Fund	323,200			323,200
Industrial Commission of Arizona				
Administrative Fund	20,110,400		500	20,110,900
Judiciary - Supreme Court				
Confidential Intermediary and Fiduciary Fund	493,600			493,600
Court Appointed Special Advocate Fund	3,348,500			3,348,500
Criminal Justice Enhancement Fund	4,399,600			4,399,600
Defensive Driving School Fund	4,205,900			4,205,900
Judicial Collection Enhancement Fund	14,784,100			14,784,100
Legislative, Executive and Judicial Public Buildings Land Fund	137,000			137,000
State Aid to the Courts Fund	2,945,100			2,945,100
Total - Judiciary - Supreme Court	<u>30,313,800</u>	<u>0</u>	<u>0</u>	<u>30,313,800</u>
Judiciary - Superior Court				
Criminal Justice Enhancement Fund	5,435,200			5,435,200
Health Services Lottery Monies Fund	250,000			250,000
Judicial Collection Enhancement Fund	6,015,200			6,015,200

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals 2/	OF Enacted FY 2018
Drug Treatment and Education Fund	502,900			502,900
Total - Judiciary - Superior Court	<u>12,203,300</u>	<u>0</u>	<u>0</u>	<u>12,203,300</u>
SUBTOTAL - Judiciary	42,517,100	0	0	42,517,100
Juvenile Corrections, Department of				
Criminal Justice Enhancement Fund	531,300			531,300
Department of Juvenile Corrections				
Local Cost Sharing Fund	11,260,000			11,260,000
State Charitable, Penal and Reformatory				
Institutions Land Fund	3,272,600			3,272,600
State Education Fund for Committed Youth	<u>1,591,200</u>			<u>1,591,200</u>
Total - Department of Juvenile Corrections	<u>16,655,100</u>	<u>0</u>	<u>0</u>	<u>16,655,100</u>
Land Department, State				
Due Diligence Fund	500,000			500,000
Environmental Special Plate Fund	260,600			260,600
Trust Land Management Fund	<u>6,489,400</u>			<u>6,489,400</u>
Total - State Land Department	<u>7,250,000</u>	<u>0</u>	<u>0</u>	<u>7,250,000</u>
Legislature				
Auditor General				
Arizona Water Banking Fund	200,000			200,000
Liquor Licenses and Control, Department of				
Liquor Licenses Fund	3,047,500			3,047,500
Lottery Commission, Arizona State				
State Lottery Fund	114,420,900	2,357,700		116,778,600
Massage Therapy, Board of				
Board of Massage Therapy Fund	466,100			466,100
Medical Board, Arizona				
Arizona Medical Board Fund	6,841,900	165,000		7,006,900
Mine Inspector, State				
Aggregate Mining Reclamation Fund	112,900			112,900
Naturopathic Physicians Medical Board				
Naturopathic Physicians Medical Board Fund	183,000			183,000
Navigable Stream Adjudication Commission				
Arizona Water Banking Fund	200,000			200,000
Nursing, State Board of				
Board of Nursing Fund	4,860,500			4,860,500
Nursing Care Institution Administrators Board				
Nursing Care Institution Administrators'				
Licensing and Assisted Living Facility				
Managers' Certification Fund	426,500			426,500
Occupational Therapy Examiners, Board of				
Occupational Therapy Fund	183,700			183,700
Opticians, State Board of Dispensing				
Board of Dispensing Opticians Fund	141,700		14,000	155,700
Optometry, State Board of				
Board of Optometry Fund	222,200			222,200

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals 2/	OF Enacted FY 2018
Osteopathic Examiners, Arizona Board of Board of Osteopathic Examiners Fund	913,100			913,100
Parks Board, Arizona State State Parks Revenue Fund	14,401,500			14,401,500
Personnel Board, State Personnel Board Subaccount of the Personnel Division Fund	378,100			378,100
Pharmacy, Arizona State Board of Arizona State Board of Pharmacy Fund	2,285,100			2,285,100
Physical Therapy, Board of Board of Physical Therapy Fund	448,000			448,000
Pioneers' Home, Arizona Miners' Hospital for Miners with Disabilities Land Fund State Charitable Fund	2,057,700 4,547,900			2,057,700 4,547,900
Total - Arizona Pioneers' Home	6,605,600	0	0	6,605,600
Podiatry Examiners, State Board of Podiatry Fund	149,700			149,700
Postsecondary Education, Commission for Postsecondary Education Fund	1,541,100			1,541,100
Private Postsecondary Education, Board for Board for Private Postsecondary Education Fund	421,000			421,000
Psychologist Examiners, State Board of Board of Psychologist Examiners Fund	480,600			480,600
Public Safety, Department of Arizona Deoxyribonucleic Acid Identification System Fund	4,970,100			4,970,100
Arizona Highway Patrol Fund	25,474,400			25,474,400
Arizona Automated Fingerprint Identification System Fund	2,919,700			2,919,700
Concealed Weapons Permit Fund	1,420,000			1,420,000
Crime Laboratory Assessment Fund	870,300			870,300
Crime Laboratory Operations Fund	13,611,300			13,611,300
Criminal Justice Enhancement Fund	2,873,400			2,873,400
Fingerprint Clearance Card Fund	700,000			700,000
GIITEM Border Security and Law Enforcement Subaccount	2,527,700			2,527,700
Highway User Revenue Fund	99,398,700			99,398,700
Motorcycle Safety Fund	205,000			205,000
Parity Compensation Fund	3,422,300			3,422,300
Public Safety Equipment Fund	3,893,700			3,893,700
Risk Management Revolving Fund	1,314,200			1,314,200
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,634,400			1,634,400
State Aid to Indigent Defense Fund	700,000			700,000

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals 2/	OF Enacted FY 2018
State Highway Fund	8,713,500			8,713,500
Total - Department of Public Safety	<u>174,648,700</u>	<u>0</u>	<u>0</u>	<u>174,648,700</u>
Radiation Regulatory Agency				
Nuclear Emergency Management Fund	789,700			789,700
State Radiologic Technologist Certification Fund	273,800			273,800
Radiation Regulatory Fee Fund	582,900			582,900
Total - Radiation Regulatory Agency	<u>1,646,400</u>	<u>0</u>	<u>0</u>	<u>1,646,400</u>
Residential Utility Consumer Office				
Residential Utility Consumer Office Revolving Fund	1,344,300			1,344,300
Respiratory Care Examiners, Board of				
Board of Respiratory Care Examiners Fund	323,300			323,300
Retirement System, Arizona State				
Long-Term Disability Trust Fund Administration Account	2,500,000			2,500,000
Arizona State Retirement System Administration Account	22,667,700			22,667,700
Total - Arizona State Retirement System	<u>25,167,700</u>	<u>0</u>	<u>0</u>	<u>25,167,700</u>
Revenue, Department of				
Department of Revenue Administrative Fund	45,303,700			45,303,700
Department of Revenue Empowerment Scholarship Account Fund	50,000			50,000
Liability Setoff Program Revolving Fund	404,100			404,100
Tobacco Tax and Health Care Fund	684,600			684,600
Total - Department of Revenue	<u>46,442,400</u>	<u>0</u>	<u>0</u>	<u>46,442,400</u>
Secretary of State				
Election Systems Improvement Fund	2,943,700			2,943,700
Records Services Fund	751,800			751,800
Total - Secretary of State	<u>3,695,500</u>	<u>0</u>	<u>0</u>	<u>3,695,500</u>
Technical Registration, State Board of				
Technical Registration Fund	2,233,700			2,233,700
Transportation, Department of				
Air Quality Fund	161,700			161,700
Driving Under the Influence Abatement Fund	153,400			153,400
Highway User Revenue Fund	656,100			656,100
Highway Damage Recovery Account	3,000,000			3,000,000
Motor Vehicle Liability Insurance Enforcement Fund	1,332,400			1,332,400
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,897,400			1,897,400
State Aviation Fund	2,103,100			2,103,100
State Highway Fund	361,130,800		54,200	361,185,000
Transportation Department Equipment Fund	18,726,300			18,726,300

	OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals 2/	OF Enacted FY 2018
Vehicle Inspection and Certificate of Title Enforcement Fund	1,464,400			1,464,400
Total - Department of Transportation	390,625,600	0	54,200	390,679,800
Treasurer, State				
Law Enforcement and Boating Safety Fund	2,183,800			2,183,800
State Treasurer Empowerment Scholarship Account Fund	304,400			304,400
State Treasurer's Operating Fund	2,595,600			2,595,600
State Treasurer's Management Fund	295,600			295,600
Total - State Treasurer	5,379,400	0	0	5,379,400
Universities				
Arizona State University				
Technology and Research Initiative Fund	3,600,000			3,600,000
University Collections Fund	685,087,900	(3,455,300)		681,632,600
Total - Arizona State University	688,687,900	(3,455,300)	0	685,232,600
Northern Arizona University				
University Collections Fund	147,362,100	10,069,000		157,431,100
University of Arizona - Main Campus				
University Collections Fund	408,320,500	1,774,200		410,094,700
University of Arizona - Health Sciences Center				
University Collections Fund	47,899,600	1,849,400		49,749,000
SUBTOTAL - Universities	1,292,270,100	10,237,300	0	1,302,507,400
Veterans' Services, Department of				
State Home for Veterans Trust Fund	35,492,700			35,492,700
Total - Department of Veterans' Services	35,492,700	0	0	35,492,700
Veterinary Medical Examining Board				
Veterinary Medical Examining Board Fund	590,000			590,000
Water Resources, Department of				
Assured and Adequate Water Supply Admin Fund	266,800			266,800
Water Resources Fund	641,400			641,400
Water Banking Fund	1,211,400			1,211,400
Total - Department of Water Resources	2,119,600	0	0	2,119,600
OPERATING BUDGET TOTAL	3,950,729,000	12,760,000	\$17,194,800	\$3,980,683,800
Unallocated HITF One-Time Employer Premium	4,235,700			4,235,700
Local HURF Transportation Funding	30,000,000			30,000,000
Capital Outlay - Building Renewal/Projects	366,380,100			366,380,100
GRAND TOTAL	4,351,344,800	12,760,000	\$17,194,800	4,381,299,600

OF FY 2018 Approp Rpt June 2017	OF Adjustments	OF FY 2018 Supplementals <u>2/</u>	OF Enacted FY 2018
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FY 2018 EXPENDITURE AUTHORITY CROSSWALK - ORIGINAL TO FINAL ESTIMATES

AHCCCS	\$9,896,125,200	\$0	\$36,973,200	9,933,098,400
Child Safety, Department of	415,540,800	0	0	415,540,800
Economic Security, Department of	<u>1,082,840,200</u>	<u>0</u>	<u>0</u>	<u>1,082,840,200</u>
GRAND TOTAL	\$11,394,506,200	\$0	\$36,973,200	\$11,431,479,400

1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2018 Appropriations Report* and its final FY 2018 appropriation, excluding capital appropriations.

2/ Reflects changes enacted in the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) and additional appropriations in the 1st Special Session and 2nd Regular Session. Any supplementals enacted prior to the 2nd Regular Session are reflected in the Adjustments column. (There were no supplementals in this category for FY 2018.)

**JLBC STAFF AND
AGENCY DIRECTORY LISTINGS**

APPROPRIATIONS COMMITTEE MEMBERS
Fifty-third Legislature
Second Regular Session

SENATE

John Kavanagh, Chairman
 Warren Petersen, Vice-Chairman
 Sylvia Allen
 Sonny Borrelli
 Olivia Cajero Bedford
 Karen Fann
 Steve Farley
 Katie Hobbs
 Martin Quezada
 Steve Smith

HOUSE

David Livingston, Chairman
 Vince Leach, Vice-Chairman
 Lela Alston
 Russell Bowers
 Mark Cardenas
 Heather Carter
 Ken Clark
 Regina Cobb
 Charlene R. Fernandez
 Randall Friese
 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 Jon Stall
- Senior Fiscal Analysts..... Matt Beienburg
 Steve Grunig
 Chris Gustafson
 Micaela Larkin
 Patrick Moran
 Rebecca Perrera
- Fiscal Analysts..... Sam Beres
 Morgan Dorcheus
 Henry Furtick
 Jeremy Gunderson
 Josh Hope
 Ben Murphy
 Geoffrey Paulsen
- Administrative Assistant/JLBC & JCCR Clerk..... Kristy Paddack

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 served on the Committee during the 53rd Legislature, 2nd Regular Session:

Representative David Livingston Vice-Chairman	Senator John Kavanagh Chairman
Representative John M. Allen	Senator Olivia Cajero Bedford
Representative Lela Alston	Senator Karen Fann
Representative Russell "Rusty" Bowers	Senator Steve Farley
Representative Charlene R. Fernandez	Senator David C. Farnsworth
Representative Vince Leach	Senator Katie Hobbs
Representative Michelle Ugenti-Rita	Senator Warren Petersen
VACANT	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 served on the Committee during the 53rd Legislature, 2nd Regular Session:

Senator John Kavanagh Vice-Chairman	Representative David Livingston Chairman
Senator Sylvia Allen	Representative John M. Allen
Senator Olivia Cajero Bedford	Representative Lela Alston
Senator Karen Fann	Representative Mark Cardenas
Senator Steve Farley	Representative Heather Carter
Senator Katie Hobbs	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 to:

- 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 a “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.

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of June 22, 2018)**

<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	Gilbert Davidson [Acting 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]	602-542-4373
Arizona Health Care Cost Containment System	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	Jaime Dempsey [Executive Director]	602-771-6501
Athletic Training, Board of	Henry Furtick	Karen Whiteford [Executive Director]	602-589-8353
Attorney General - Department of Law	Sam Beres	Honorable Mark Brnovich [Attorney General]	602-542-5025
Auditor General	Steve Grunig	Lindsey Perry [Auditor General]	602-553-0333
Automobile Theft Authority	Geoffrey Paulsen	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	Sam Beres	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	Geoffrey Paulsen	Honorable Samuel Anderson Thumma [Chief Judge]	602-452-6790
Court of Appeals, Division II	Geoffrey Paulsen	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	Marilee Dal Pra [Executive Director]	602-771-5100
Economic Opportunity, Office of	Sam Beres	Sandra Watson [Director]	602-771-2222
Economic Security, Department of	Chris Gustafson/ Patrick Moran	Michael Traylor [Director]	602-542-5757
Education, State Board of	Matt Beienburg	Alicia Williams [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	Matthew Gress [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] W. James Burns [Executive Director] Fred Veil [Executive Director] Gilbert M. Orrantia [Director] Eric Borg [Executive Director]	602-542-1025 520-628-5774 928-445-3122 602-542-7013 602-542-3095
House of Representatives Housing, Arizona Department of Industrial Commission of Arizona Insurance, Department of Joint Legislative Budget Committee	Steve Grunig Henry Furtick Sam Beres Jeremy Gunderson Steve Grunig	Honorable J.D. Mesnard [Speaker of the House] Carol Ditmore [Director] James Ashley [Director] Keith Schraad [Interim Director] Richard Stavneak [Director]	602-926-3312 602-771-1007 602-542-4411 602-364-3471 602-926-5491
Juvenile Corrections, Department of Land Department, State Legislative Council Liquor Licenses and Control, Department of Lottery Commission, Arizona State	Chris Gustafson Henry Furtick Steve Grunig Jeremy Gunderson Jeremy Gunderson	Jeff Hood [Director] Lisa Atkins [Land Commissioner] Mike E. Braun [Executive Director] John Cocca [Director] Gregory Edgar [Executive Director]	602-364-4051 602-542-4621 602-926-4236 602-542-9020 480-921-4505
Massage Therapy, Board of Medical Board, Arizona Mine Inspector, State Naturopathic Physicians Medical Board Navigable Stream Adjudication Commission, Arizona	Steve Grunig Morgan Dorcheus Henry Furtick Steve Grunig Henry Furtick	Kathleen Phillips [Executive Director] Patricia McSorley [Executive Director] Honorable Joe Hart [State Mine Inspector] Gail Anthony [Director] George Mehnert [Executive Director]	602-542-8804 480-551-2700 602-542-5971 602-542-8242 602-542-9214
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 Opticians, State Board of Dispensing	Sam Beres Morgan Dorcheus Steve Grunig Steve Grunig Steve Grunig	Rita Cheng, Ph.D. [President] Jo Elizabeth Ridenour [Executive Director] Allen Imig [Executive Director] Karen Whiteford [Executive Director] Megan Darian [Executive Director]	928-523-3232 602-771-7800 602-542-8156 602-589-8352 602-542-8158
Optometry, State Board of Osteopathic Examiners, Arizona Board of Parents Commission on Drug Education and Prevention, AZ Parks Board, Arizona State Personnel Board, State	Steve Grunig Morgan Dorcheus Morgan Dorcheus Ben Murphy Ben Murphy	Margaret Whelan [Executive Director] Amber Brake [Executive Director] Maria Fuentes [Program Administrator] Sue Black [Executive Director] Robin Van Staeyen [Interim Executive Director]	602-542-8155 480-657-7703 602-542-1773 602-542-4174 602-542-3888
Pharmacy, Arizona State Board of Physical Therapy, Board of Pioneers' Home, Arizona Podiatry Examiners, State Board of Postsecondary Education, Commission for	Henry Furtick Steve Grunig Morgan Dorcheus Steve Grunig Morgan Dorcheus	Kamlesh Gandhi [Executive Director] Charles Brown [Executive Director] Philip Schlotter [Superintendent] Kristina Gomez [Executive Director] April L. Osborn [Executive Director]	602-771-2740 602-542-8157 928-445-2181 602-542-8151 602-258-2435
Power Authority, Arizona Private Postsecondary Education, State Board for Psychologist Examiners, State Board of Public Safety, Department of Public Safety Personnel Retirement System	Josh Hope Steve Grunig Steve Grunig Geoffrey Paulsen Josh Hope	Edward A. Gerak [Executive Director] Teri R. Stanfill [Executive Director] Cindy Olvey [Director] Frank Milstead [Director] Jared Smout [Administrator]	602-368-4265 602-542-2399 602-542-8162 602-223-2359 602-255-5575
Real Estate Department, State Regents, Arizona Board of Residential Utility Consumer Office Respiratory Care Examiners, Board of Retirement System, Arizona State	Sam Beres Matt Beienburg Jeremy Gunderson Steve Grunig Josh Hope	Judy Lowe [Commissioner] John Arnold [Interim Managing Director] David Tenney [Director] Jack Confer [Director] Paul Matson [Director]	602-771-7799 602-229-2507 602-364-4835 602-542-5995 602-240-2000
Revenue, Department of School Facilities Board Secretary of State, Department of State Senate Superior Court	Jeremy Gunderson Rebecca Perrera Micaela Larkin Steve Grunig Geoffrey Paulsen	David Briant [Director] Paul Bakalis [Director] Honorable Michele Reagan [Secretary of State] Honorable Steve Yarbrough [President of the Senate] David K. Byers [Director]	602-716-6090 602-542-6504 602-542-4285 602-926-4371 602-452-3301
Supreme Court Tax Appeals, State Board of Technical Registration, State Board of Tourism, Office of Transportation, Department of	Geoffrey Paulsen Jeremy Gunderson Henry Furtick Henry Furtick Ben Murphy	Scott Bales [Chief Justice] Karen Rice-Brogdon [Chairperson] Melissa Cornelius [Executive Director] Debbie Johnson [Director] John Halikowski [Director]	602-452-3534 602-364-1102 602-364-4930 602-364-3717 602-712-7227

AGENCY/DEPARTMENT/BUDGET AREA

Treasurer, State
Tribal Relations, Governor's Office on
University of Arizona
Veterans' Services, Department of
Veterinary Medical Examining Board, Arizona State
Water Resources, Department of

JLBC ANALYST

Ben Murphy
Ben Murphy
Sam Beres
Morgan Dorcheus
Steve Grunig
Micaela Larkin

AGENCY/DEPARTMENT HEADS

Honorable Eileen Klein [State Treasurer]
Kristine FireThunder [Executive Director]
Robert Robbins, M.D. [President]
Colonel Wanda Wright [Director]
Victoria Whitmore [Executive Director]
Thomas Buschatzke [Director]

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OTHER ASSIGNMENTS

Capital Review
Economic and Revenue Forecast

Federal/Non-Appropriated Funds
Fiscal Note Manager

Jack Brown
Hans Olofsson
Jack Brown
Stefan Shepherd
Stefan Shepherd

[] Denotes Title for Information Purposes