

**FY 2019
Baseline Book**

January 2018

JLBC

FY 2019 BASELINE BOOK

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FY 2019 BASELINE SUMMARY

Overview

The FY 2019 Baseline provides an estimate of the state’s General Fund balances. The revenue projections reflect a consensus economic forecast while the spending estimates represent active funding formula requirements and other obligations. The Baseline does not represent a budget proposal, but an estimate of available resources after statutory requirements.

The JLBC Baseline parameters are as follows:

- Total FY 2019 General Fund revenue is projected to be \$9.95 billion. Base revenues are forecast to grow by \$368 million, or 3.6% above FY 2018. After adjusting these estimates for previously enacted tax law changes and the elimination of one-time monies, however, net revenue growth would only be \$140 million, or 1.4% above FY 2018.
- In comparison, FY 2019 Baseline formula spending is projected to be \$10.06 billion. This amount reflects a \$228 million, or 2.3%, increase in expenditures over FY 2018. Spending on current funding formulas would be partially offset by elimination of one-time FY 2018 spending.
- The projected FY 2019 cash shortfall is \$(108) million. When comparing ongoing revenues with ongoing spending, however, the structural shortfall is \$(11) million.

Table 1

Possible Retention Candidates

<u>One-Time '17 Funding</u>	<u>\$ in M</u>
ADE IT System	7
SFB Building Renewal	17
Universities	15
DES - DD Prop 206	12
State Employee Health	25
Counties - DJC/Other	10

The Baseline can be used to determine the level of changes, either in spending or revenues, necessary to bring the budget into balance. The structural shortfall of \$(11) million and cash shortfall of \$(108) million may understate the necessary level of changes to produce a balanced budget. The Baseline eliminates over \$89 million of spending that was labeled as "one-time" in the FY 2018. There may be legislative interest in retaining some of this spending (*see Table 1*), as well as in other new discretionary spending or tax decreases.

FY 2018

The FY 2018 budget is currently projected to have a \$(20) million shortfall, a decrease of \$(58) million from the original budget estimate of a \$38 million balance. Total revenues, including the beginning balance, are forecast to be \$9.81 billion compared to spending of \$9.83 billion. The net \$(58) million adjustment has 2 components:

- Including the beginning balance, revenues are \$(45) million less than anticipated.
- Spending is projected to be a net \$13 million higher than originally budgeted in FY 2018 primarily due to a Department of Education supplemental (*see Statement of General Fund Revenues and Expenditures*).

FY 2019 Baseline Revenues

Base revenues are forecast to grow in FY 2019 while one-time revenues are projected to decline from FY 2018 to FY 2019. Overall FY 2019 collections would increase by 1.4% to \$9.95 billion, or \$140 million above the revised FY 2018 estimate. The major adjustments are:

- Based on JLBC’s 4-sector consensus, FY 2019 base revenues are projected to grow by \$368 million, or 3.6%. Base revenues reflect the underlying growth in the economy and exclude one-time adjustments, urban revenue sharing and new tax law changes (*see the General Fund Revenue section for more information*). This estimate excludes any impact associated with the recently enacted federal tax law changes.
- The growth in base revenues would be partially offset by a \$(151) million decrease in the balance forward between FY 2018 and FY 2019. The state started FY 2018 with a cash balance of \$151 million, but that is projected to be completely eliminated at the start of FY 2019 as the FY 2018 budget is currently estimated to have a \$(20) million shortfall.

- The state set-aside for urban revenue sharing formula distributions would decrease from \$681 million to \$675 million, thereby increasing state revenue by \$6 million.
- Previously enacted legislative changes would reduce state revenue by \$(75) million, primarily from the continued phase-in of corporate income tax reductions.
- Elimination of one-time FY 2018 fund transfers would reduce revenues by \$(8) million.

FY 2019 Baseline Spending

Based on statutory funding formulas and other obligations, FY 2019 Baseline spending is projected to increase by 2.3% to \$10.06 billion, or \$228 million more than FY 2018. The major adjustments are:

- Department of Education formula spending would have a net increase of \$168 million due to 1.3% growth in student enrollment, a 1.77% inflation factor, and a new 1.06% teacher pay adjustment. These growth factors would be partially offset by savings associated with higher K-12 property tax collections and trust land endowment earnings.
- AHCCCS formula spending would grow by a net of \$84 million, reflecting 2.0% caseload growth, a 3.5% rate increase, and elimination of one-time savings for a 1-year moratorium on a federal health insurer fee.
- The Department of Economic Security (DES) budget would increase by \$52 million primarily for Developmental Disabilities Medicaid growth.
- Department of Corrections spending would decrease \$(12) million for the elimination of a one-time health insurance adjustment.
- University spending would increase by \$7 million due to an increase of \$27 million for the first year of the 2017 Capital Infrastructure program, partially offset by the elimination of \$(15) million in one-time FY 2017 assistance and \$(5) million for a one-time health insurance adjustment.
- School Facilities Board funding would be reduced by \$(52) million, reflecting the elimination of \$(17) million of one-time building renewal monies and \$(35) million for decreased lease-purchase debt obligations. The Baseline includes a total of \$88 million for new construction, including \$38 million for the second and final year of FY 2018 authorizations and \$50 million for the first year of 5 new FY 2019 authorizations.
- County assistance would fall by \$(10) million due to the elimination of one-time FY 2018 spending for 3 large rural counties and a Department of Juvenile Corrections cost offset. The Baseline continues to include \$30 million from non-General Fund sources for local Highway User Revenue Fund (HURF) in FY 2019 to fully offset the local HURF "sweep." This offset has already been enacted for FY 2019.
- Agency budgets would be reduced by \$(25) million statewide to eliminate a one-time state employer health insurance increase; the majority of these savings are reflected in the agencies listed above.

The \$10.06 billion spending level would support a Full-Time Equivalent (FTE) Position ceiling of 53,150 state employees.

Other Fiscal Challenges

As an estimate of state revenues and spending obligations, there are both positive and negative risks to the JLBC Baseline estimates. Because small percent changes in growth assumptions can have a substantial impact – over 3 years, a 1% change in base revenue growth could change available revenues by \$635 million through FY 2021 – these risks could significantly change the final results of these budgets.

The state faces a number of other challenges in putting together a FY 2019 budget. These challenges include:

- Federal tax reform passed by Congress at the end of 2017 will provide distinct budgeting challenges. Arizona will need to decide whether to continue to conform its definition of state taxable income for individual and corporate taxes to the federal definition. Conforming with the recently-enacted federal tax legislation changes could have a significant fiscal impact. As of this writing, this highly complex federal legislation is still being analyzed.
- The length of the current economic recovery is approaching the record for the longest post-World War II expansion. If the economy

Table 2	
Fiscal Challenges	
<ul style="list-style-type: none"> • Federal Tax Changes • Length of Expansion • Retirement System Underfunding • Pending Litigation 	

makes it through FY 2019 without a recession, it would tie the record at 120 months.

- Retirement system underfunding is not addressed in the Baseline in 2 ways:
 - New retirement rates in the Arizona State Retirement System (ASRS), Corrections Officer Retirement Plan (CORP) and Public Safety Personnel Retirement System (PSPRS) systems could result in up to \$29 million in new General Fund costs.
 - The Elected Officials' Retirement Plan (EORP) is currently estimated to become insolvent in 9 years. The current General Fund contribution is \$5 million. The General Fund cost of making the system sustainable is an additional \$5 million for state elected officials.
- The state faces ongoing litigation such as:
 - The K-12 Capital Funding litigation in Maricopa Superior Court.
 - Litigation against the Department of Child Safety in United States District Court. The case was recently granted class-action status.
 - The Rental Car surcharge litigation has a potential one-time impact of \$150 million. A Maricopa Superior Court has ruled that the rental car surcharge used to help fund the Arizona Sports and Tourism Authority is unconstitutional as those monies are to be dedicated for transportation. The Court also ruled that the state, and not the Authority, had the initial legal responsibility to pay the collected surcharges.

Debt

At the end of FY 2019, the state's projected level of lease-purchase and bonding obligations will be \$6.8 billion. The associated annual debt service payment is \$884 million.

Of the \$6.8 billion in total obligations, the General Fund share is \$1.9 billion. The General Fund annual debt service is projected to be \$321 million in FY 2019 (*see the Debt and Lease-Purchase Financing section of the Capital Outlay narrative for additional information*).

As a remnant of the Great Recession, the state also pays \$931 million of current year K-12 obligations in the next year (the "rollover"). The \$6.8 billion estimate of total obligations also does not include any unfunded retirement liability.

Arizona's credit rating was last changed in May 2015. Both major credit rating agencies upgraded Arizona's credit rating. Standard & Poor's upgraded Arizona from AA- to AA, while Moody's upgraded Arizona from Aa3 to Aa2. Both ratings represent the agencies' third highest rating out of 10 possible levels. Using Moody's credit ratings as of 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. Since May 2015, both major agencies have maintained a stable outlook for Arizona.

More recently, Standard & Poor's upgraded its rating on Arizona's 2010 Lottery bonds to AA+ from AA. While the rating only applies to the Lottery bonds and not the state's overall rating, Standard & Poor's cited the state's broad and diverse population base and growth in the past decade as one reason for the improved outlook.

Other Funds

Besides the General Fund, the state has dedicated special revenue funds. Only a portion of these monies is subject to legislative appropriation. The Baseline includes a FY 2019 Other Fund appropriated spending level of \$4.3 billion, or (1.9)% below FY 2018.

The level of FY 2019 non-appropriated state funds is expected to be \$9.5 billion, while non-appropriated Federal Funds are forecast to be \$16.3 billion. When all appropriated and non-appropriated fund sources are combined, total FY 2019 state spending would be \$40.1 billion.

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

	FY 2018 Baseline	FY 2019 Baseline	FY 2020 Baseline	FY 2021 Baseline
REVENUES				
Ongoing Revenues	\$10,329,319,800	\$10,697,547,200	\$11,079,813,900	\$11,577,112,900
Previously Enacted Changes		(75,296,200)	(6,433,300)	(5,800,000)
Urban Revenue Sharing	(680,770,100)	(674,804,400)	(694,639,400)	(708,904,300)
Net Ongoing Revenues	\$9,648,549,700	\$9,947,446,600	\$10,378,741,200	\$10,862,408,600
One-time Financing Sources				
Balance Forward	\$150,871,000			
Moody's Settlement Fund Transfer	8,172,700			
Subtotal One-time Revenues	\$159,043,700	\$0	\$0	\$0
Total Revenues	\$9,807,593,400	\$9,947,446,600	\$10,378,741,200	\$10,862,408,600
EXPENDITURES				
Operating Budget Appropriations	\$9,708,061,800	\$9,999,524,300	\$10,374,753,300	\$10,691,508,400
FY 2018 Supplementals/Ex-Appropriations	(1,061,200)			
Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
Revertments	(140,682,500)	(140,682,500)	(140,682,500)	(140,682,500)
Subtotal Ongoing Expenditures	\$9,666,318,100	\$9,958,841,800	\$10,334,070,800	\$10,650,825,900
One-time Expenditures				
Capital Outlay	\$5,700,000	\$5,700,000		
Operating One-Time Spending	180,142,500	91,126,500	57,902,400	27,146,400
AHCCCS One-Time Savings	(24,130,900)			
Subtotal One-time Expenditures	\$161,711,600	\$96,826,500	\$57,902,400	\$27,146,400
Total Expenditures	\$9,828,029,700	\$10,055,668,300	\$10,391,973,200	\$10,677,972,300
Ending Balance <u>2/</u>	(\$20,436,300) <u>4/</u>	(\$108,221,700) <u>4/</u>	(\$13,232,000)	\$184,436,300
Structural Balance <u>3/</u>	(\$17,768,400)	(\$11,395,200)	\$44,670,400	\$211,582,700

- 1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.
- 2/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.
- 3/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.
- 4/ The projected FY 2018 and FY 2019 cash shortfalls are presumed to be solved as part of the FY 2019 budget process.

SUMMARY OF ONE-TIME SPENDING AND ONE-TIME SAVINGS

	FY 2018 Baseline	FY 2019 Baseline	FY 2020 Baseline	FY 2021 Baseline
Operating				
ADOA/Automation Projects Fund - ADE IT	\$ 7,300,000	\$ -	\$ -	\$ -
Agriculture - Equipment	61,000			
Attorney General - Criminal Division	1,500,000	1,500,000	1,500,000	
Counties - DJC Local Cost Sharing Offset	8,000,000			
Counties - \$550k Distribution (Pinal/Yavapai/Mohave)	1,650,200			
DES - One-Time Prop 206 Funding	10,000,000			
DES - One-Time DD Room and Board	2,000,000			
ADE - Geographic Literacy	100,000			
ADE - Professional Development Pilot	300,000			
Forester - Fire Safety Communications	139,900			
Forester - Post Release Firefighting Crew	465,100			
Governor - Youth Success Fund Deposit	1,500,000			
Governor - School Leadership Training	250,000			
Governor - Computer Science Initiative	200,000			
SFB - Building Renewal Grants	17,167,900			
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)			17,675,700	12,975,700
SFB - New School Construction (FY 21 Authorization)				14,170,700
SOS - One-Time Operating Funding	500,000			
Universities - ASU	7,639,500			
Universities - NAU	3,202,800			
Universities - UA	4,157,700			
DWR - Drought Contingency Plan	2,000,000	2,000,000	2,000,000	
Other - HITF Deposit	25,000,000			
Subtotal - Operating Funding	\$ 180,142,500	\$ 91,126,500	\$ 57,902,400	\$ 27,146,400
AHCCCS - One-time Health Insurer Fee Savings	\$ (24,130,900)			
Capital Outlay				
Capital - ADOA - Projects	5,700,000	5,700,000		
Subtotal - Capital Outlay	\$ 5,700,000	\$ 5,700,000	\$ -	\$ -
Total - One-time Spending	\$ 161,711,600	\$ 96,826,500	\$ 57,902,400	\$ 27,146,400

SUMMARY OF FY 2019 BASELINE REVENUE AND SPENDING ASSUMPTIONS

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

General Fund Cash Balances

- Given forecasted FY 2018 General Fund revenues of \$9.81 billion and spending of \$9.83 billion, the Baseline has a projected FY 2018 cash shortfall of \$(20) million. Given forecasted FY 2019 General Fund revenues of \$9.95 billion and spending of \$10.06 billion, the Baseline has a projected FY 2019 cash shortfall of \$(108) million.
- Under the 3-year budget projections, there would be a cash shortfall of \$(13) million in FY 2020 and a cash balance of \$184 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 Baseline has a projected FY 2018 structural shortfall of \$(18) million in FY 2018 and \$(11) million in FY 2019.
- Under the 3-year budget projections, there would be a structural balance of \$45 million in FY 2020 and \$212 million in FY 2021.

General Fund Revenues

- Projected FY 2019 revenues are \$9.95 billion, including:
 - ⇒ Based on JLBC's 4-sector consensus, base revenues are projected to grow by \$368 million, or 3.6%.
 - ⇒ The beginning balance would decrease by \$(151) million, from \$151 million at the beginning of FY 2018 to \$0 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.
 - ⇒ One-time fund transfers would decrease by \$(8) million.
 - ⇒ Overall net revenues are forecast to increase in FY 2019 by \$140 million, or 1.4%, from \$9.81 billion in FY 2018 to \$9.95 billion in FY 2019.

General Fund Spending

- FY 2019 General Fund spending is projected to be \$10.06 billion, an increase of \$228 million, or 2.3%, above FY 2018.
- The entire FY 2019 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$40.1 billion.

Education

Department of Education

- ADE General Fund spending increases by \$167.6 million, or 4.0%, including:
 - ⇒ \$8.8 million for FY 2018 formula base adjustments.
 - ⇒ \$95.3 million for 1.3% student growth, for a total student count of 1,123,948.
 - ⇒ \$104.9 million for a 1.77% 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 appropriation of surplus Special Education Fund monies to Basic State Aid.
 - ⇒ \$33.1 million for an additional 1.06% teacher salary increase.
 - ⇒ \$11.0 million for Results-Based Funding under the new A – F grading system.
 - ⇒ \$4.0 million for Early Literacy increase to \$12.0 million (already appropriated).
 - ⇒ \$(554,900) to eliminate one-time funding, including funding for Geographic Literacy, a Teacher Professional Development pilot and standard changes.
 - ⇒ \$600,000 for property tax statutory changes.

- ⇒ \$262,400 for Empowerment Scholarship Account (ESA) growth.
- The Baseline eliminates \$(2.6) million in one-time funding from the Budget Stabilization Fund for rural school districts.
- The Baseline includes a \$10.5 million FY 2018 supplemental for shortfalls in Additional State Aid and Results-Based Funding.
- The Baseline 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 \$(52.1) million, or (17.8)% including:
 - ⇒ \$(17.2) million for the removal of one-time building renewal grant monies.
 - ⇒ \$(35.5) million for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$0.6 million for increased costs of new school construction. The FY 2019 authorizations include 5 new schools in Chandler, Queen Creek, and Tolleson that would be completed in FY 2020.
- The Baseline 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 the 5 new FY 2019 authorizations.

Universities

- The Universities' General Fund spending increases by \$7.3 million, or 1.0%, 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.
 - ⇒ \$(4.7) million for the removal of one-time funding for statewide adjustments for employer health insurance premiums.
- Total university enrollment is expected to be approximately 179,400 full-time equivalent students in FY 2019, or 5.3% above FY 2018.

Community Colleges

- Community College General Fund spending increases by \$1.8 million, or 3.3%, including:
 - ⇒ \$1.7 million for equalization formula growth.
 - ⇒ \$200,000 for Tohono O'Odham Community College as they qualify for first time funding from the Tribal Community Colleges formula.
 - ⇒ \$(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 increases by \$84.0 million, or 4.7%, including:
 - ⇒ \$80.8 million for formula adjustments, including 2.0% enrollment growth and a 3.5% capitation rate increase.
 - ⇒ \$(17.1) million to transfer behavioral health service funding of the developmentally disabled population to the Department of Economic Security as part of integration of care.
 - ⇒ \$20.3 million for other adjustments, including restoration of a federal health insurer fee.
- The Baseline ex-appropriates \$(9.0) million in FY 2018 for lower-than-anticipated caseload and capitation growth.
- AHCCCS enrollment is projected to grow to 1.92 million by June 2019. This level represents a caseload increase of 37,600, or 2.0%, above June 2018.

Department of Child Safety

- DCS' General Fund spending increases by \$4.6 million, or 1.1%, including:
 - ⇒ \$5.0 million for the next installment of the CHILDS Replacement Project. General Fund support for the project remains unchanged, but funding is transferred from ADOA to DCS.
 - ⇒ \$(416,000) to eliminate a one-time health insurance adjustment
- DCS' benchmark is to have fewer than 15,191 children in out-of-home care by the end of FY 2018. As of September 2017, there were 15,867 children in out-of-home care.

Department of Economic Security

- DES General Fund spending increases by \$51.8 million, or 8.8%, including:
 - ⇒ \$34.1 million for formula adjustments, including 4.5% enrollment growth and a 3.5% capitation rate increase.
 - ⇒ \$17.1 million to transfer DD behavioral health services from AHCCCS to DES to reflect the department's plans to integrate care for clients.
 - ⇒ \$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.
 - ⇒ \$2.9 million for capitation costs associated with the Medicaid Targeted Case Management program for DD state-only members.
 - ⇒ \$(12.0) million to eliminate one-time funding for DD providers.
 - ⇒ \$(558,900) to eliminate a one-time health insurance adjustment.
- The Baseline ex-appropriates \$(3.0) million in FY 2018 for lower-than-anticipated DD capitation 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 17,763 by June 2019.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending decreases by \$(12.3) million, or (1.1)%, to eliminate a one-time FY 2018 health insurance adjustment.
- The Baseline does not include potential adjustments for inmate health care costs or employer retirement contribution rates. The retirement contribution cost increase for ADC is expected to be \$26.4 million from the General Fund.
- 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 decreases by \$(28,700), or (0.03)%, including:
 - ⇒ \$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. The FY 2018 budget's 3-year spending plan included this ongoing funding (total of \$315,000) starting in FY 2019.
 - ⇒ \$(503,300) to eliminate a one-time FY 2018 health insurance adjustment.
- The Baseline includes \$2.6 million in FY 2019 Judiciary Fund transfers to the General Fund, consistent with the FY 2017 budget's 3-year spending plan.

Department of Public Safety

- DPS General Fund spending decreases by \$(959,600), or (0.9)%, to eliminate a one-time FY 2018 health insurance adjustment.

Local Issues

- The Baseline includes a decrease of \$(1,650,150) from the General Fund to eliminate a one-time increase for assistance to Pinal, Yavapai, and Mohave Counties.
- The Baseline includes a decrease of \$(8.0) million from the General Fund to eliminate one-time funding distributed to counties to offset contributions for the cost of the Department of Juvenile Corrections.
- The Baseline 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 Baseline continues to include \$30.0 million from the Highway Expansion and Extension Loan Program (HELP) Fund for local HURF in FY 2019 to fully offset the local HURF "sweep." This local HURF sweep offset has already been enacted for FY 2019.

General Government

Revertments

- The Baseline assumes projected revertments at \$(141) million, which is unchanged from FY 2018. (Revertments are unspent appropriations.)
- FY 2019 Administrative Adjustments are forecast to be \$100 million, which is unchanged from FY 2018.

FY 2018 General Fund Supplementals/Ex-Appropriations

- The Baseline includes a net decrease of \$(1.1) million for FY 2018 adjustments, including:
 - ⇒ \$(3.0) million from the Department of Economic Security budget for lower-than-anticipated capitation adjustments for the Developmental Disabilities program.
 - ⇒ \$(9.0) million from the AHCCCS budget for lower-than-anticipated caseload and capitation growth.
 - ⇒ \$10.5 million for the Department of Education for shortfalls in Additional State Aid and Results-Based Funding.
 - ⇒ \$449,100 for the Land Department's Central Arizona Project payments.

State Employee Issues

FTE Positions

- The Baseline increases the Total Appropriated Funds Full-Time Equivalent (FTE) ceiling by 1.4 FTE Positions in FY 2019, including:
 - ⇒ An increase of 34.4 FTE Positions in DES' Division of Developmental Disabilities (DDD) for additional case managers.
 - ⇒ A decrease of (17.0) FTE Positions in the Department of Housing due to a funding shift from the General Fund to a Non-Appropriated Fund.
 - ⇒ A decrease of (16.0) FTE Positions in the Department of Veterans' Services to align with lower funding levels resulting from the elimination of the Conservatorship Program in FY 2018.
- These adjustments would bring the total FTE Position ceiling to 53,150.2 in FY 2019.

State Employee Health Insurance

- The Baseline includes a decrease of \$(25.0) million from the General Fund (and \$(76.4) million in Total Funds) for the removal of a one-time FY 2018 health insurance adjustment.

Employee Retirement Issues

- In the Arizona State Retirement System, both employer and employee contribution rates will increase from 11.50% to 11.80%.
- Employer retirement contribution rates will increase in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP). The employee contribution rates in both systems will remain the same.
 - ⇒ In PSPRS, the FY 2019 increase in the aggregate employer contribution rate for most employees would be 0.01%. For Tier 3 employees (hired after June 30, 2017), the rate increases by 1.56%.
 - ⇒ In CORP, the FY 2019 increase in the aggregate employer contribution rate would be 7.80%.
- In the Elected Officials' Retirement Plan (EORP), both employer and employee contribution rates will remain the same as the rates are fixed in statute. Given the *Fields* and *Hall* rulings, the higher cost requirements would leave the EORP Fund depleted in 9 years.
- If the Legislature chooses to fund the FY 2019 employer contribution rate changes for CORP and PSPRS, the General Fund cost would be \$29.2 million (\$39.4 million Total State Funds) in FY 2019. The Baseline does not include funding for the employer share of these rate adjustments in any agency budget.

Capital

- The Baseline includes \$8.7 million from Other Appropriated Funds for building renewal at ADOA, ADC, Game and Fish, and the State Lottery.
- The Baseline includes no adjustment for lease-purchase and privatized lease-to-own payments changes, and also includes no adjustment for rent charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.

FY 2019 GENERAL FUND SUMMARY BY AGENCY

	GF FY 2018 Estimate	GF FY 2019 Baseline	GF FY 2019 Baseline - FY 2018
BUDGET UNITS			
Administration, Arizona Department of	\$10,365,300	\$10,264,500	(\$100,800)
Administration, Arizona Department of Automation Projects Fund	12,300,000	0	(12,300,000)
Administrative Hearings, Office of	870,900	860,500	(10,400)
African-American Affairs, Arizona Commission of	125,800	125,000	(800)
Agriculture, Arizona Department of	9,563,700	9,356,300	(207,400)
AHCCCS	1,775,264,100	1,859,238,700	83,974,600
Attorney General - Department of Law	26,344,200	26,068,500	(275,700)
Charter Schools, State Board for	1,200,600	1,185,200	(15,400)
Child Safety, Department of	379,790,800	384,374,800	4,584,000
Commerce Authority, Arizona	21,800,000	21,800,000	0
Community Colleges, Arizona	55,086,500 ^{1/}	56,899,900	1,813,400
Corporation Commission	621,500	611,600	(9,900)
Corrections, State Department of	1,067,624,800	1,055,305,000	(12,319,800)
County Funding	15,650,700	6,000,500	(9,650,200)
Deaf and the Blind, Schools for the	21,932,000	21,378,100	(553,900)
Economic Opportunity, Office of	484,100	484,100	0
Economic Security, Department of	586,110,300	637,935,500	51,825,200
Education, State Board of	1,153,600	1,142,800	(10,800)
Education, Department of	4,226,958,400	4,394,604,800	167,646,400
Emergency and Military Affairs, Department of	11,238,300	11,195,100	(43,200)
Environmental Quality, Department of	2,823,600	2,823,600	0
Equal Opportunity, Governor's Office of	191,900	189,100	(2,800)
Equalization, State Board of	646,400	643,000	(3,400)
Executive Clemency, Board of	963,500	952,600	(10,900)
Financial Institutions, State Department of	2,201,000	2,153,200	(47,800)
Forestry and Fire Management, Arizona Department of	11,922,500	11,250,300	(672,200)
Gaming, Department of	1,779,500	1,779,500	0
Governor, Office of the	8,871,400	6,849,900	(2,021,500)
Governor's Office of Strategic Planning and Budgeting	2,014,600	1,994,000	(20,600)
Health Services, Department of	87,669,400 ^{2/}	88,624,200	954,800
Historical Society, Arizona	3,179,800	3,142,500	(37,300)
Historical Society, Prescott	840,200	824,500	(15,700)
Housing, Department of	830,000	0	(830,000)
Insurance, Department of	5,878,300	5,806,400	(71,900)
Judiciary			
Supreme Court	18,812,000	18,628,700	(183,300)
Court of Appeals	14,723,000	14,581,400	(141,600)
Superior Court	77,183,700	77,479,900	296,200
SUBTOTAL - Judiciary	110,718,700	110,690,000	(28,700)
Juvenile Corrections, Department of	19,549,800	19,155,700	(394,100)
Land Department, State	12,365,900	12,671,600	305,700
Legislature			
Auditor General	18,688,800	18,546,500	(142,300)
House of Representatives	13,419,100	13,201,500	(217,600)
Joint Legislative Budget Committee	2,513,800	2,488,300	(25,500)
Legislative Council	8,278,400	8,215,400	(63,000)
Senate	9,548,100	9,408,500	(139,600)
SUBTOTAL - Legislature	52,448,200	51,860,200	(588,000)
Mine Inspector, State	1,226,800	1,212,500	(14,300)
Navigable Stream Adjudication Commission	125,500	124,000	(1,500)
Postsecondary Education, Commission for	1,881,800	1,881,800	0
Public Safety, Department of	109,614,200	108,654,600	(959,600)
Public Safety Personnel Retirement System	6,000,000	6,000,000	0
Radiation Regulatory Agency	787,600 ^{2/}	0	(787,600)
Real Estate Department, State	3,028,000	2,994,900	(33,100)
Revenue, Department of	31,291,300	30,507,700	(783,600)
School Facilities Board	292,286,600	240,248,400	(52,038,200)
Secretary of State	12,190,100	14,947,700	2,757,600

	GF FY 2018 Estimate	GF FY 2019 Baseline	GF FY 2019 Baseline - FY 2018
Tax Appeals, State Board of	268,300	266,600	(1,700)
Tourism, Office of	7,112,000	7,112,000	0
Transportation, Department of	50,500	50,400	(100)
Treasurer, State	1,205,100	1,205,100	0
Tribal Relations, Governor's Office on Universities	58,000	57,500	(500)
Board of Regents	6,909,300	6,887,200	(22,100)
Arizona State University	320,259,000	322,036,700	1,777,700
Northern Arizona University	108,612,800	109,873,700	1,260,900
University of Arizona - Main Campus	199,600,900	204,472,400	4,871,500
University of Arizona - Health Sciences Center	69,437,700	68,859,800	(577,900)
SUBTOTAL - Universities	704,819,700	712,129,800	7,310,100
Veterans' Services, Department of	6,115,800	6,054,100	(61,700)
Water Resources, Department of	16,001,900	15,854,200	(147,700)
OPERATING BUDGET TOTAL	\$9,743,443,500	\$9,969,542,500	\$226,099,000
FY 2018 Supplemental/Ex-Appropriation <u>3</u> / Unallocated HITF One-Time Employer Premium	(1,061,200) 15,800	0 0	1,061,200 (15,800)
Capital Outlay - Building Renewal/Projects	5,700,000	5,700,000	0
Capital Outlay - 2010 Leaseback Debt Service	84,115,100	84,112,000	(3,100)
Capital Outlay - Phoenix Convention Center	22,499,000	22,996,300	497,300
Capital Outlay - Rio Nuevo District	14,000,000	14,000,000	0
Administrative Adjustments	100,000,000	100,000,000	0
Revertments	(140,682,500)	(140,682,500)	0
GRAND TOTAL	\$9,828,029,700	\$10,055,668,300	\$227,638,600

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

2/ Laws 2017, Chapter 313 transfers the Arizona Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS), effective January 1, 2018. While the FY 2018 General Appropriation Act appropriated a separate budget for the ARRA, Chapter 313 states that all duties and unexpended or unencumbered monies of ARRA are transferred to DHS on the effective date. ARRA funds are displayed in ARRA in FY 2018.

3/ Please see page S-32 for individual agency detail.

FY 2019 OTHER APPROPRIATED FUNDS SUMMARY BY AGENCY

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
BUDGET UNITS			
Accountancy, State Board of			
Board of Accountancy Fund	\$2,042,200	\$2,024,400	(\$17,800)
Acupuncture Board of Examiners			
Acupuncture Board of Examiners Fund	185,500	162,300	(23,200)
Administration, Arizona Department of			
Administration - AFIS II Collections Fund	375,900	0	(375,900)
Air Quality Fund	927,300	927,300	0
Arizona Financial Information System Collections Fund	9,457,500	9,406,300	(51,200)
Automation Operations Fund	24,067,000	23,937,600	(129,400)
Capital Outlay Stabilization Fund	18,159,900	18,069,600	(90,300)
Corrections Fund	573,600	570,400	(3,200)
Federal Surplus Materials Revolving Fund	465,700	464,500	(1,200)
Information Technology Fund	2,948,900	2,936,000	(12,900)
Motor Vehicle Pool Revolving Fund	10,154,100	10,151,300	(2,800)
Personnel Division Fund	12,951,500	12,857,900	(93,600)
Risk Management Revolving Fund	90,951,400	90,875,000	(76,400)
Special Employee Health Insurance Trust Fund	5,302,000	5,256,100	(45,900)
Special Services Revolving Fund	812,300	809,900	(2,400)
State Surplus Materials Revolving Fund	2,960,600	2,947,000	(13,600)
State Web Portal Fund	5,551,600	4,542,400	(1,009,200)
Telecommunications Fund	1,858,700	1,845,100	(13,600)
Total - Arizona Department of Administration	187,518,000	185,596,400	(1,921,600)
Administration, Arizona Department of -			
Automation Projects Fund	55,761,900	1,500,000	(54,261,900)
Agriculture, Arizona Department of			
Air Quality Fund	1,441,500	1,434,400	(7,100)
Nuclear Emergency Management Fund	275,000	275,000	0
Total - Arizona Department of Agriculture	1,716,500	1,709,400	(7,100)
AHCCCS			
Budget Neutrality Compliance Fund	3,655,300	3,756,200	100,900
Children's Health Insurance Program Fund	117,688,200	88,023,200	(29,665,000)
Prescription Drug Rebate Fund - State	145,691,200	148,457,900	2,766,700
Substance Abuse Services Fund	2,250,200	2,250,200	0
Tobacco Products Tax Fund			
Emergency Health Services Account	19,244,300	17,966,100	(1,278,200)
Tobacco Tax and Health Care Fund			
Medically Needy Account	72,998,200	68,040,500	(4,957,700)
Total - AHCCCS	361,527,400	328,494,100	(33,033,300)
Arts, Arizona Commission on the			
Budget Stabilization Fund	1,500,000	0	(1,500,000)
Athletic Training, Board of			
Athletic Training Fund	120,600	119,100	(1,500)
Attorney General - Department of Law			
Antitrust Enforcement Revolving Fund	246,300	244,300	(2,000)
Attorney General Legal Services Cost Allocation Fund	2,080,400	2,080,400	0
Collection Enforcement Revolving Fund	6,920,900	6,845,200	(75,700)
Consumer Protection-Consumer Fraud Rev. Fund	6,335,600	6,275,700	(59,900)
Interagency Service Agreements Fund	16,500,800	16,308,500	(192,300)
Internet Crimes Against Children Enforcement Fund	900,000	900,000	0
Risk Management Revolving Fund	9,468,600	9,406,700	(61,900)
Victims' Rights Fund	3,761,300	3,758,900	(2,400)
Total - Attorney General - Department of Law	46,213,900	45,819,700	(394,200)
Automobile Theft Authority			
Automobile Theft Authority Fund	5,301,400	5,295,500	(5,900)
Barbers, Board of			
Board of Barbers Fund	345,800	341,800	(4,000)
Behavioral Health Examiners, Board of			
Board of Behavioral Health Examiners Fund	1,777,800	1,759,100	(18,700)

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
Child Safety, Department of			
Child Abuse Prevention Fund	1,459,300	1,459,300	0
Children and Family Services Training Program Fund	207,100	207,100	0
Federal Child Care and Development Fund Block Grant	27,000,000	27,000,000	0
Federal Temporary Assistance for Needy Families Block Grant	149,472,700	152,445,300	2,972,600
Risk Management Revolving Fund	2,471,200	0	(2,471,200)
Total - Department of Child Safety	<u>180,610,300</u>	<u>181,111,700</u>	<u>501,400</u>
Chiropractic Examiners, State Board of			
Board of Chiropractic Examiners Fund	455,100	451,100	(4,000)
Contractors, Registrar of			
Registrar of Contractors Fund	12,268,400	12,165,400	(103,000)
Corporation Commission			
Arizona Arts Trust Fund	51,600	49,900	(1,700)
Investment Management Regulatory and Enforcement Fund	717,500	708,900	(8,600)
Public Access Fund	6,638,100	6,558,800	(79,300)
Securities Regulatory and Enforcement Fund	4,969,300	4,909,600	(59,700)
Utility Regulation Revolving Fund	14,275,900	14,098,400	(177,500)
Total - Corporation Commission	<u>26,652,400</u>	<u>26,325,600</u>	<u>(326,800)</u>
Corrections, State Department of			
Alcohol Abuse Treatment Fund	555,500	555,500	0
Corrections Fund	30,312,300	30,312,300	0
Inmate Store Proceeds Fund	386,300	386,300	0
Penitentiary Land Fund	2,062,500	2,062,500	0
Prison Construction and Operations Fund	12,500,000	12,500,000	0
State Charitable, Penal and Reformatory Institutions Land Fund	2,661,500	2,661,500	0
State Education Fund for Correctional Education	675,000	669,500	(5,500)
Transition Program Fund	2,400,100	2,400,100	0
Total - State Department of Corrections	<u>51,553,200</u>	<u>51,547,700</u>	<u>(5,500)</u>
Cosmetology, Board of			
Board of Cosmetology Fund	1,864,500	1,839,400	(25,100)
Criminal Justice Commission, Arizona			
Criminal Justice Enhancement Fund	651,300	646,600	(4,700)
Drug and Gang Prevention Resource Center Fund	605,000	604,500	(500)
Inmate Store Proceeds Fund	750,000	0	(750,000)
Penitentiary Land Fund	1,000,000	0	(1,000,000)
State Charitable, Penal and Reformatory Institutions Land Fund	1,000,000	0	(1,000,000)
State Aid to County Attorneys Fund	973,700	973,700	0
Victim Compensation and Assistance Fund	4,222,600	4,220,600	(2,000)
Total - Arizona Criminal Justice Commission	<u>9,202,600</u>	<u>6,445,400</u>	<u>(2,757,200)</u>
Deaf and the Blind, Arizona Schools for the			
Schools for the Deaf and the Blind Fund	11,878,700	11,500,100	(378,600)
Deaf and the Hard of Hearing, Comm. for the			
Telecommunication Fund for the Deaf	4,622,600	4,601,500	(21,100)
Dental Examiners, State Board of			
Dental Board Fund	1,229,900	1,214,500	(15,400)
Economic Security, Department of			
Child Support Enforcement Administration Fund	17,267,400	16,632,600	(634,800)
Domestic Violence Services Fund	4,000,000	4,000,000	0
Federal Child Care and Development Fund Block Grant	107,773,600	107,773,600	0
Federal Temporary Assistance for Needy Families Block Grant	72,964,700	69,992,100	(2,972,600)
Health Services Lottery Monies Fund	2,800,000	100,000	(2,700,000)
Long Term Care System Fund	26,561,500	26,559,600	(1,900)
Public Assistance Collections Fund	422,100	421,900	(200)

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
Special Administration Fund	2,951,800	2,928,700	(23,100)
Spinal and Head Injuries Trust Fund	2,326,400	2,323,700	(2,700)
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	0
Workforce Investment Act Grant	56,040,200	56,040,200	0
Total - Department of Economic Security	294,107,700	287,772,400	(6,335,300)
Education, Department of			
Automation Projects Fund	3,000,000	0	(3,000,000)
Budget Stabilization Fund	2,600,000	0	(2,600,000)
Department of Education Empowerment Scholarship Account Fund	1,202,000	1,197,900	(4,100)
Department of Education Professional Development Revolving Fund	2,700,000	2,700,000	0
Permanent State School Fund	235,343,500	276,604,200	41,260,700
Proposition 301 Fund	7,000,000	7,000,000	0
Teacher Certification Fund	2,363,200	2,342,700	(20,500)
Tribal College Dual Enrollment Program Fund	250,000	250,000	0
Total - Department of Education	254,458,700	290,094,800	35,636,100
Emergency and Military Affairs, Department of			
Nuclear Emergency Management Fund	1,438,400	1,461,600	23,200
Environmental Quality, Department of			
Air Quality Fund	7,381,900	7,461,400	79,500
Emergency Response Fund	132,800	132,800	0
Emissions Inspection Fund	30,610,100	27,970,500	(2,639,600)
Hazardous Waste Management Fund	1,744,300	1,734,600	(9,700)
Indirect Cost Recovery Fund	13,464,000	13,375,200	(88,800)
Permit Administration Fund	10,876,300	7,114,100	(3,762,200)
Recycling Fund	2,361,300	2,029,300	(332,000)
Safe Drinking Water Program Fund	1,800,000	1,800,000	0
Solid Waste Fee Fund	1,247,400	1,239,000	(8,400)
Underground Storage Tank Fund Revolving Fund	22,000	22,000	0
Water Quality Fee Fund	10,582,300	10,507,400	(74,900)
Total - Department of Environmental Quality	80,222,400	73,386,300	(6,836,100)
Exposition and State Fair Board, Arizona			
Arizona Exposition and State Fair Fund	12,153,300	12,113,300	(40,000)
Financial Institutions, Department of			
Financial Services Fund	3,226,800	3,197,500	(29,300)
Funeral Directors and Embalmers, Board of			
Board of Funeral Directors' and Embalmers' Fund	378,200	373,300	(4,900)
Game and Fish Department, Arizona			
Capital Improvement Fund	1,001,200	1,001,200	0
Game and Fish Fund	37,110,600	36,314,400	(796,200)
Game, Nongame, Fish and Endangered Species Fund	346,800	345,800	(1,000)
Watercraft Licensing Fund	5,834,400	4,810,700	(1,023,700)
Wildlife Endowment Fund	16,200	16,200	0
Total - Arizona Game and Fish Department	44,309,200	42,488,300	(1,820,900)
Gaming, Department of			
Tribal-State Compact Fund	2,105,400	2,081,800	(23,600)
Racing Regulation Fund	2,167,900	1,886,000	(281,900)
State Lottery Fund	300,000	300,000	0
Arizona Benefits Fund	11,050,900	10,282,500	(768,400)
Total - Department of Gaming	15,624,200	14,550,300	(1,073,900)
Health Services, Department of			
Arizona State Hospital Fund	6,808,800	5,562,000	(1,246,800)
ASH Land Earnings Fund	970,000	650,000	(320,000)
Capital Outlay Stabilization Fund	1,559,900	1,559,900	0
Child Fatality Review Fund	96,900	94,700	(2,200)
Emergency Medical Services Operating Fund	6,248,100	5,707,900	(540,200)
Environmental Laboratory Licensure Revolving Fund	930,400	924,200	(6,200)
Federal Child Care and Development Fund Block Grant	887,900	872,300	(15,600)
Health Services Licensing Fund	9,372,700	9,232,300	(140,400)

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
Indirect Cost Fund	9,581,300	9,546,100	(35,200)
Newborn Screening Program Fund	7,674,900	7,643,100	(31,800)
Nuclear Emergency Management Fund	0 <u>1/</u>	789,700	789,700
Nursing Care Institution Resident Protection Revolving Fund	138,200	138,200	0
State Radiologic Technologist Certification Fund	0 <u>1/</u>	271,600	271,600
Radiation Regulatory Fee Fund	0 <u>1/</u>	576,500	576,500
Tobacco Tax and Health Care Fund Health Research Account	4,000,000	3,000,000	(1,000,000)
Tobacco Tax and Health Care Fund Medically Needy Account	700,000	700,000	0
Vital Records Electronic Systems Fund	3,637,400	3,619,500	(17,900)
Total - Department of Health Services	52,606,500	50,888,000	(1,718,500)
Homeopathic and Integrated Medicine Examiners, Board of Board of Homeopathic and Integrated Medicine Examiners' Fund	89,000	87,300	(1,700)
Housing, Department of Housing Trust Fund	323,200	318,500	(4,700)
Industrial Commission of Arizona Administrative Fund	20,110,400	19,881,300	(229,100)
Judiciary - Supreme Court Confidential Intermediary and Fiduciary Fund	493,600	488,900	(4,700)
Court Appointed Special Advocate Fund	3,348,500	3,343,200	(5,300)
Criminal Justice Enhancement Fund	4,399,600	4,365,200	(34,400)
Defensive Driving School Fund	4,205,900	4,198,500	(7,400)
Judicial Collection Enhancement Fund	14,784,100	14,767,900	(16,200)
Legislative, Executive and Judicial Public Buildings Land Fund	137,000	0	(137,000)
State Aid to the Courts Fund	2,945,100	2,945,100	0
Total - Judiciary - Supreme Court	30,313,800	30,108,800	(205,000)
Judiciary - Superior Court Criminal Justice Enhancement Fund	5,435,200	5,435,200	0
Health Services Lottery Monies Fund	250,000	0	(250,000)
Judicial Collection Enhancement Fund	6,015,200	6,015,200	0
Drug Treatment and Education Fund	502,900	502,900	0
Total - Judiciary - Superior Court	12,203,300	11,953,300	(250,000)
SUBTOTAL - Judiciary	42,517,100	42,062,100	(455,000)
Juvenile Corrections, Department of Criminal Justice Enhancement Fund	531,300	531,300	0
Department of Juvenile Corrections Local Cost Sharing Fund	11,260,000	11,260,000	0
State Charitable, Penal and Reformatory Institutions Land Fund	3,272,600	3,011,300	(261,300)
State Education Fund for Committed Youth	1,591,200	1,588,200	(3,000)
Total - Department of Juvenile Corrections	16,655,100	16,390,800	(264,300)
Land Department, State Due Diligence Fund	500,000	500,000	0
Environmental Special Plate Fund	260,600	260,600	0
Trust Land Management Fund	6,489,400	4,036,500	(2,452,900)
Total - State Land Department	7,250,000	4,797,100	(2,452,900)
Legislature Auditor General Arizona Water Banking Fund	200,000	0	(200,000)
Liquor Licenses and Control, Department of Liquor Licenses Fund	3,047,500	3,007,400	(40,100)
Lottery Commission, Arizona State State Lottery Fund	116,778,600 <u>2/</u>	120,525,100	3,746,500
Massage Therapy, Board of Board of Massage Therapy Fund	466,100	461,100	(5,000)
Medical Board, Arizona Arizona Medical Board Fund	7,006,900 <u>3/</u>	6,949,000	(57,900)

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
Mine Inspector, State			
Aggregate Mining Reclamation Fund	112,900	112,900	0
Naturopathic Physicians Medical Board			
Naturopathic Physicians Medical Board Fund	183,000	180,200	(2,800)
Navigable Stream Adjudication Commission			
Arizona Water Banking Fund	200,000	200,000	0
Nursing, State Board of			
Board of Nursing Fund	4,860,500	4,784,800	(75,700)
Nursing Care Institution Administrators Board			
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	426,500	421,400	(5,100)
Occupational Therapy Examiners, Board of			
Occupational Therapy Fund	183,700	170,700	(13,000)
Opticians, State Board of Dispensing			
Board of Dispensing Opticians Fund	141,700	140,000	(1,700)
Optometry, State Board of			
Board of Optometry Fund	222,200	220,100	(2,100)
Osteopathic Examiners, Arizona Board of			
Board of Osteopathic Examiners Fund	913,100	905,500	(7,600)
Parents Commission on Drug Education and Prevention, Arizona			
Drug Treatment and Education Fund	0	0	0
Parks Board, Arizona State			
State Parks Revenue Fund	14,401,500	14,254,100	(147,400)
Personnel Board, State			
Personnel Board Subaccount of the Personnel Division Fund	378,100	375,300	(2,800)
Pharmacy, Arizona State Board of			
Arizona State Board of Pharmacy Fund	2,285,100	2,148,200	(136,900)
Physical Therapy, Board of			
Board of Physical Therapy Fund	448,000	441,200	(6,800)
Pioneers' Home, Arizona			
Miners' Hospital for Miners with Disabilities Fund	2,057,700	2,028,900	(28,800)
State Charitable Fund	4,547,900	4,463,700	(84,200)
Total - Arizona Pioneers' Home	<u>6,605,600</u>	<u>6,492,600</u>	<u>(113,000)</u>
Podiatry Examiners, State Board of			
Podiatry Fund	149,700	148,400	(1,300)
Postsecondary Education, Commission for			
Postsecondary Education Fund	1,541,100	1,534,100	(7,000)
Private Postsecondary Education, Board for			
Board for Private Postsecondary Education Fund	421,000	396,100	(24,900)
Psychologist Examiners, State Board of			
Board of Psychologist Examiners Fund	480,600	475,400	(5,200)
Public Safety, Department of			
Arizona Deoxyribonucleic Acid Identification System Fund	4,970,100	0	(4,970,100)
Arizona Highway Patrol Fund	25,474,400	24,992,800	(481,600)
Arizona Automated Fingerprint Identification System Fund	2,919,700	0	(2,919,700)
Concealed Weapons Permit Fund	1,420,000	1,409,800	(10,200)
Crime Laboratory Assessment Fund	870,300	0	(870,300)
Crime Laboratory Operations Fund	13,611,300	0	(13,611,300)
Criminal Justice Enhancement Fund	2,873,400	2,873,400	0
DPS Forensics Fund	0	22,369,300	22,369,300
Fingerprint Clearance Card Fund	700,000	0	(700,000)
GIITEM Border Security and Law Enforcement Subaccount	2,527,700	2,527,700	0
Highway User Revenue Fund	99,398,700	99,398,700	0
Motorcycle Safety Fund	205,000	205,000	0
Parity Compensation Fund	3,422,300	3,397,400	(24,900)
Public Safety Equipment Fund	3,893,700	2,893,700	(1,000,000)
Risk Management Revolving Fund	1,314,200	1,314,200	0

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
Safety Enforcement and Transportation			
Infrastructure Fund - Department of			
Public Safety Subaccount	1,634,400	1,617,800	(16,600)
State Aid to Indigent Defense Fund	700,000	700,000	0
State Highway Fund	8,713,500	7,580,900	(1,132,600)
Total - Department of Public Safety	<u>174,648,700</u>	<u>171,280,700</u>	<u>(3,368,000)</u>
Radiation Regulatory Agency			
Nuclear Emergency Management Fund	789,700 1/	0	(789,700)
State Radiologic Technologist Certification			
Fund	273,800 1/	0	(273,800)
Radiation Regulatory Fee Fund	582,900 1/	0	(582,900)
Total - Radiation Regulatory Agency	<u>1,646,400</u>	<u>0</u>	<u>(1,646,400)</u>
Residential Utility Consumer Office			
Residential Utility Consumer Office			
Revolving Fund	1,344,300	1,331,400	(12,900)
Respiratory Care Examiners, Board of			
Board of Respiratory Care Examiners Fund	323,300	300,300	(23,000)
Retirement System, Arizona State			
Long-Term Disability Trust Fund Administration			
Account	2,500,000	2,200,000	(300,000)
Arizona State Retirement System Administration			
Account	22,667,700	22,159,200	(508,500)
Total - Arizona State Retirement System	<u>25,167,700</u>	<u>24,359,200</u>	<u>(808,500)</u>
Revenue, Department of			
Department of Revenue Administrative Fund	45,303,700	45,158,700	(145,000)
Department of Revenue Empowerment Scholarship			
Account Fund	50,000	50,000	0
Liability Setoff Program Revolving Fund	404,100	397,900	(6,200)
Tobacco Tax and Health Care Fund	684,600	678,300	(6,300)
Total - Department of Revenue	<u>46,442,400</u>	<u>46,284,900</u>	<u>(157,500)</u>
Secretary of State			
Election Systems Improvement Fund	2,943,700	2,941,100	(2,600)
Records Services Fund	751,800	740,400	(11,400)
Total - Secretary of State	<u>3,695,500</u>	<u>3,681,500</u>	<u>(14,000)</u>
Technical Registration, State Board of			
Technical Registration Fund	2,233,700	2,204,400	(29,300)
Transportation, Department of			
Air Quality Fund	161,700	161,700	0
Driving Under the Influence Abatement Fund	153,400	152,200	(1,200)
Highway User Revenue Fund	656,100	649,700	(6,400)
Highway Damage Recovery Account	3,000,000	3,000,000	0
Motor Vehicle Liability Insurance			
Enforcement Fund	1,332,400	1,308,700	(23,700)
Safety Enforcement and Transportation			
Infrastructure Fund - Department of			
Transportation Subaccount	1,897,400	1,868,300	(29,100)
State Aviation Fund	2,103,100	1,816,800	(286,300)
State Highway Fund	361,130,800	352,793,100	(8,337,700)
Transportation Department Equipment Fund	18,726,300	18,474,600	(251,700)
Vehicle Inspection and Certificate of Title			
Enforcement Fund	1,464,400	1,450,200	(14,200)
Total - Department of Transportation	<u>390,625,600</u>	<u>381,675,300</u>	<u>(8,950,300)</u>
Treasurer, State			
Law Enforcement and Boating Safety Fund	2,183,800	2,183,800	0
State Treasurer Empowerment Scholarship			
Account Fund	304,400	304,400	0
State Treasurer's Operating Fund	2,595,600	2,559,300	(36,300)
State Treasurer's Management Fund	295,600	295,600	0
Total - State Treasurer	<u>5,379,400</u>	<u>5,343,100</u>	<u>(36,300)</u>
Universities			
Arizona State University			
Technology and Research Initiative Fund	3,600,000	3,600,000	0
University Collections Fund	681,632,600 4/	681,632,600	0

	OF FY 2018 Estimate	OF FY 2019 Baseline	OF FY 2019 Baseline - FY 2018
Total - Arizona State University	685,232,600	685,232,600	0
Northern Arizona University			
University Collections Fund	157,431,100 ^{4/}	157,431,100	0
University of Arizona - Main Campus			
University Collections Fund	410,094,700 ^{4/}	410,094,700	0
University of Arizona - Health Sciences Center			
University Collections Fund	49,749,000 ^{4/}	49,749,000	0
SUBTOTAL - Universities	1,302,507,400	1,302,507,400	0
Veterans' Services, Department of			
State Veterans' Conservatorship Fund	0		0
State Home for Veterans Trust Fund	35,492,700	35,147,600	(345,100)
Total - Department of Veterans' Services	35,492,700	35,147,600	(345,100)
Veterinary Medical Examining Board			
Veterinary Medical Examining Board Fund	590,000	584,800	(5,200)
Water Resources, Department of			
Assured and Adequate Water Supply Admin Fund	266,800	266,300	(500)
Water Resources Fund	641,400	641,400	0
Water Banking Fund	1,211,400	1,211,400	0
Total - Department of Water Resources	2,119,600	2,119,100	(500)
OPERATING BUDGET TOTAL	\$3,963,489,000	\$3,871,050,400	(\$92,438,600)
FY 2018 Supplemental/Ex-Appropriation ^{5/}	13,636,300	0	(13,636,300)
Unallocated HITF One-Time Employer Premium	4,235,700	0	(4,235,700)
Local HURF Transportation Funding	30,000,000	30,000,000	0
Capital Outlay - Building Renewal/Projects	366,380,100	395,268,400	28,888,300
GRAND TOTAL	\$4,377,741,100	\$4,296,318,800	(\$81,422,300)

- ^{1/} Laws 2017, Chapter 313 transfers the Arizona Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS), effective January 1, 2018. While the FY 2018 General Appropriation Act appropriated a separate budget for the ARRA, Chapter 313 states that all duties and unexpended or unencumbered monies of ARRA are transferred to DHS on the effective date. ARRA funds are displayed in ARRA in FY 2018.
- ^{2/} Revised Lottery forecast.
- ^{3/} The Employee Performance Incentive Program was previously funded by a footnote allowing the Arizona 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. In FY 2018, the Medical Board estimates 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*.
- ^{4/} Reflects tuition collections receipts above the amount appropriated by the Legislature in FY 2018. A footnote in the FY 2018 General Appropriation Act appropriated any tuition collections receipts above the appropriated amount to the university.
- ^{5/} Please see page S-32 for individual agency detail.

DETAILED LIST OF GENERAL FUND CHANGES BY AGENCY

	FY 2018 GF <u>1</u> / JLBC Baseline	FY 19 Baseline <u>2</u> / Above FY 18	FY 2019 GF JLBC Baseline
OPERATING SPENDING CHANGES			
DOA - Arizona Department of Administration	10,365,300		10,264,500
DOA - Remove Health Insurance Adjustment		(100,800)	
APF - Automation Projects Fund/ADOA	12,300,000		0
APF - Remove ADE Automation (One-time)		(7,300,000)	
APF - Shift DCS Automation to DCS Agency Budget		(5,000,000)	
OAH - Office of Administrative Hearings	870,900		860,500
OAH - Remove Health Insurance Adjustment		(10,400)	
AAM - Commission of African-American Affairs	125,800		125,000
AAM - Remove Health Insurance Adjustment		(800)	
AGR - Department of Agriculture	9,563,700		9,356,300
AGR - Remove Health Insurance Adjustment		(146,400)	
AGR - Remove One-time Equipment		(61,000)	
AXS - AHCCCS	1,775,264,100		1,859,238,700
AXS - Remove Health Insurance Adjustment		(396,800)	
AXS - Formula Changes		80,763,200	
AXS - Other Adjustments		20,703,700	
AXS - DD Behavioral Health Services Transfer to DES		(17,095,500)	
ATT - Attorney General	26,344,200		26,068,500
ATT - Remove Health Insurance Adjustment		(275,700)	
CHA - State Board for Charter Schools	1,200,600		1,185,200
CHA - Remove Health Insurance Adjustment		(15,400)	
DCS - Department of Child Safety	379,790,800		384,374,800
DCS - Remove Health Insurance Adjustment		(416,000)	
DCS - Shift DCS Automation to DCS Agency Budget		5,000,000	
ACA - Arizona Commerce Authority	21,800,000		21,800,000
CCO - Arizona Community Colleges	55,086,500		56,899,900
CCO - Formula Changes		1,663,400	
CCO - Tribal Community College Funding (Tohono O'odham Nation)		200,000	
CCO - Remove One-time Gila County Workforce Development Funding		(50,000)	
COR - Corporation Commission	621,500		611,600
COR - Remove Health Insurance Adjustment		(9,900)	
ADC - Department of Corrections	1,067,624,800		1,055,305,000
ADC - Remove Health Insurance Adjustment		(12,319,800)	
CF - County Funding	15,650,700		6,000,500
CF - Remove One-time Additional County Distribution		(8,000,000)	
CF - Remove One-time \$550k Distribution to Mohave/Yavapai/Pinal		(1,650,200)	

	FY 2018 GF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 GF JLBC Baseline
SDB - Arizona State Schools for the Deaf and the Blind	21,932,000		21,378,100
SDB - Remove Health Insurance Adjustment		(553,900)	
OEC - Office of Economic Opportunity	484,100		484,100
DES - Department of Economic Security	586,110,300		637,935,500
DES - Remove Health Insurance Adjustment		(558,900)	
DES - DD Caseload/Inflation Funding		34,066,200	
DES - DD Behavioral Health Services Transfer from AHCCCS		17,095,500	
DES - Prop 206 Minimum Wage Increase		3,883,400	
DES - DD Room and Board		6,400,000	
DES - Case Management Program Costs		2,939,000	
DES - Remove One-Time Additional Prop 206 Funding		(10,000,000)	
DES - Remove One-Time DD Room and Board Funding		(2,000,000)	
BOE - State Board of Education	1,153,600		1,142,800
BOE - Remove Health Insurance Adjustment		(10,800)	
ADE - Arizona Department of Education	4,226,958,400		4,394,604,800
ADE - Remove Health Insurance Adjustment		(154,900)	
ADE - Base Adjustment		8,844,800	
ADE - Enrollment Growth		95,310,000	
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	
ADE - Early Literacy Funding		4,000,000	
ADE - Empowerment Scholarship Accounts		262,400	
ADE - Remove One-time Geographic Literacy Funding		(100,000)	
ADE - Remove One-Time Teacher Professional Development Pilot		(300,000)	
EMA - Department of Emergency & Military Affairs	11,238,300		11,195,100
EMA - Remove Health Insurance Adjustment		(43,200)	
DEQ - Department of Environmental Quality	2,823,600		2,823,600
OEO - Governor's Office of Equal Opportunity	191,900		189,100
OEO - Remove Health Insurance Adjustment		(2,800)	
EQU - State Board of Equalization	646,400		643,000
EQU - Remove Health Insurance Adjustment		(3,400)	
EXE - Board of Executive Clemency	963,500		952,600
EXE - Remove Health Insurance Adjustment		(10,900)	
DFI - Dept of Financial Institutions	2,201,000		2,153,200
DFI - Remove Health Insurance Adjustment		(47,800)	

	FY 2018 GF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 GF JLBC Baseline
FOR - Department of Forestry and Fire Management	11,922,500		11,250,300
FOR - Remove Health Insurance Adjustment		(67,200)	
FOR - Remove One-Time Post-Release Fire Crew Equipment		(465,100)	
FOR - Remove One-Time Fire Communication Equipment		(139,900)	
GAM - Department of Gaming	1,779,500		1,779,500
GOV - Office of the Governor	8,871,400		6,849,900
GOV - Remove Health Insurance Adjustment		(71,500)	
GOV - Remove One-Time Foster Youth Education Success Program		(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		1,994,000
OSP - Remove Health Insurance Adjustment		(20,600)	
DHS - Department of Health Services	87,669,400		88,624,200
DHS - Remove Health Insurance Adjustment		(1,032,800)	
DHS - Funding Shift from AHCCCS		1,200,000	
DHS - Radiation Regulatory Agency Transfer to DHS		787,600	
AZH - Arizona Historical Society	3,179,800		3,142,500
AZH - Remove Health Insurance Adjustment		(37,300)	
PAZ - Prescott Historical Society	840,200		824,500
PAZ - Remove Health Insurance Adjustment		(15,700)	
DOH - Department of Housing	830,000		0
DOH - Self-Funding for Manufactured Housing (Laws 2017, Ch. 335)		(830,000)	
INS - Department of Insurance	5,878,300		5,806,400
INS - Remove Health Insurance Adjustment		(71,900)	
SPA - Judiciary - Supreme Court	18,812,000		18,628,700
SPA - Remove Health Insurance Adjustment		(330,600)	
SPA - 1.5% Judicial Pay Raise		10,300	
SPA - Risk Management Funding Shift		137,000	
COA - Judiciary - Court of Appeals	14,723,000		14,581,400
COA - Remove Health Insurance Adjustment - Division I		(122,400)	
COA - Remove Health Insurance Adjustment - Division II		(50,300)	
COA - 1.5% Judicial Pay Raise		31,100	
SUP - Judiciary - Superior Court	77,183,700		77,479,900
SUP - 1.5% Judicial Pay Raise		56,200	
SUP - Maricopa County Court Ordered Removals		240,000	
DJC - Department of Juvenile Corrections	19,549,800		19,155,700
DJC - Remove Health Insurance Adjustment		(394,100)	
LAN - State Land Department	12,365,900		12,671,600
LAN - Remove Health Insurance Adjustment		(143,400)	
LAN - CAP Fees		449,100	

	FY 2018 GF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 GF JLBC Baseline
Legislature			
AUD - Auditor General	18,688,800		18,546,500
AUD - Remove Health Insurance Adjustment		(249,800)	
AUD - Special Investigative Unit		107,500	
HOU - House of Representatives	13,419,100		13,201,500
HOU - Remove Health Insurance Adjustment		(217,600)	
JLBC - Joint Legislative Budget Committee	2,513,800		2,488,300
JLBC - Remove Health Insurance Adjustment		(25,500)	
LEG - Legislative Council	8,278,400		8,215,400
LEG - Remove Health Insurance Adjustment		(63,000)	
SEN - Senate	9,548,100		9,408,500
SEN - Remove Health Insurance Adjustment		(139,600)	
MIN - State Mine Inspector	1,226,800		1,212,500
MIN - Remove Health Insurance Adjustment		(14,300)	
NAV - Arizona Navigable Steam Adjudication Comm.	125,500		124,000
NAV - Remove Health Insurance Adjustment		(1,500)	
POS - Commission for Postsecondary Education	1,881,800		1,881,800
DPS - Department of Public Safety	109,614,200		108,654,600
DPS - Remove Health Insurance Adjustment		(959,600)	
PSP - Public Safety Personnel Retirement System	6,000,000		6,000,000
RAD - Radiation Regulatory Agency	787,600		0
RAD - Shift Agency to DHS		(787,600)	
REA - State Real Estate Department	3,028,000		2,994,900
REA - Remove Health Insurance Adjustment		(33,100)	
REV - Department of Revenue	31,291,300		30,507,700
REV - Remove Health Insurance Adjustment		(783,600)	
SFB - School Facilities Board	292,286,600		240,248,400
SFB - Remove Health Insurance Adjustment		(14,000)	
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 - Debt Service Changes		(35,474,400)	
SFB - Remove One-time Building Renewal Grants		(17,167,900)	
SOS - Secretary of State	12,190,100		14,947,700
SOS - Remove Health Insurance Adjustment		(126,900)	
SOS - Restore Election Funding (2018 Primary and General Election)		3,384,500	
SOS - Remove One-Time Operating Funding		(500,000)	
TAX - State Board of Tax Appeals	268,300		266,600
TAX - Remove Health Insurance Adjustment		(1,700)	

	FY 2018 GF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 GF JLBC Baseline
TOU - Office of Tourism	7,112,000		7,112,000
DOT - Department of Transportation	50,500		50,400
DOT - Remove Health Insurance Adjustment		(100)	
TRE - State Treasurer	1,205,100		1,205,100
OTR - Governor's Office on Tribal Relations	58,000		57,500
OTR - Remove Health Insurance Adjustment		(500)	
UNI - Universities			
UNI - Arizona Board of Regents	6,909,300		6,887,200
UNI - Remove Health Insurance Adjustment		(22,100)	
UNI - ASU	320,259,000		322,036,700
UNI - Remove Health Insurance Adjustment		(2,507,900)	
UNI - Refinance Adjustment		(2,300)	
UNI - Remove One-time Operating/Capital Funding		(7,639,500)	
UNI - 2017 Capital Infrastructure Funding		11,927,400	
UNI - Northern Arizona University	108,612,800		109,873,700
UNI - Remove Health Insurance Adjustment		(56,900)	
UNI - Refinance Adjustment		(300)	
UNI - Remove One-time Operating/Capital Funding		(3,202,800)	
UNI - 2017 Capital Infrastructure Funding		4,520,900	
UNI - UA - Main Campus	199,600,900		204,472,400
UNI - Remove Health Insurance Adjustment		(1,524,200)	
UNI - Refinance Adjustment		1,700	
UNI - Remove One-time Operating/Capital Funding		(4,157,700)	
UNI - 2017 Capital Infrastructure Funding		10,551,700	
UNI - UA - Health Sciences Center	69,437,700		68,859,800
UNI - Remove Health Insurance Adjustment		(577,900)	
VSC - Department of Veterans' Services	6,115,800		6,054,100
VSC - Remove Health Insurance Adjustment		(61,700)	
WAT - Department of Water Resources	16,001,900		15,854,200
WAT - Remove Health Insurance Adjustment		(147,700)	
OTH - Other			
OTH - FY 18 Supplementals/Ex-Appropriations	(1,061,200)	1,061,200	0
OTH - Debt Service Payments	84,115,100	(3,100)	84,112,000
OTH - Phoenix Convention Center Debt Service	22,499,000	497,300	22,996,300
OTH - Rio Nuevo District	14,000,000		14,000,000
OTH - Administrative Adjustments	100,000,000		100,000,000
OTH - Revertments	(140,682,500)		(140,682,500)
OTH - Unallocated HITF One-Time Employer Premium	15,800	(15,800)	0
TOTAL - OPERATING SPENDING CHANGES	9,822,329,700	227,638,600	10,049,968,300

	FY 2018 GF <u>1/</u> JLBC Baseline	FY 19 Baseline <u>2/</u> Above FY 18	FY 2019 GF JLBC Baseline
CAPITAL SPENDING			
ADOA Building Renewal	5,700,000		5,700,000
Local HURF Transportation Funding	OF - \$30 M		OF - \$30 M
TOTAL - CAPITAL SPENDING	5,700,000	0	5,700,000
TOTAL - ALL SPENDING	9,828,029,700	227,638,600	10,055,668,300
REVENUE CHANGES			
Ongoing Revenue			
REV - Ongoing Revenue	9,648,549,700	298,896,900	9,947,446,600
One-Time Revenue			
REV - Beginning Balance	150,871,000	(150,871,000)	0
REV - Attorney General - Moody's Settlement	8,172,700	(8,172,700)	0
TOTAL - REVENUE CHANGES <u>3/</u>	9,807,593,400	139,853,200	9,947,446,600
ENDING BALANCE	(20,436,300)	(87,785,400)	(108,221,700)

1/ Represents original FY 2018 appropriations adjusted for revisions in the Universities to 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 <u>1</u> / JLBC Baseline	FY 19 Baseline <u>2</u> / Above FY 18	FY 2019 OF JLBC Baseline
OPERATING SPENDING CHANGES			
SBA - State Board of Accountancy	2,042,200		2,024,400
SBA - Remove Health Insurance Adjustment		(17,800)	
ACU - Acupuncture Board of Examiners	185,500		162,300
ACU - Remove One-Time Rulemaking Funding		(10,000)	
ACU - Remove One-Time Leave Payout Funding		(13,200)	
DOA - Arizona Department of Administration	187,518,000		185,596,400
DOA - Remove Health Insurance Adjustment		(545,700)	
DOA - Remove One-Time Government Transformation Funding		(1,000,000)	
DOA - One-Time Funding Office of Grants and Fed. Resources		(375,900)	
APF - Automation Projects Fund/ADOA	55,761,900		1,500,000
APF - Remove One-time ADE Automation Funding		(7,300,000)	
APF - Remove Non-Project Management ASET Funding		(11,208,600)	
APF - Remove DCS Automation (\$5 M Shifted to DCS GF Funding)		(11,100,000)	
APF - Remove DOR IT Infrastructure Funding		(11,000,000)	
APF - Remove DOA HRIS Replacement Study Funding		(500,000)	
APF - Remove DPS Microwave Backbone Funding		(2,500,000)	
APF - Remove DPS Criminal Justice Information System Funding		(2,343,000)	
APF - Remove DEQ e-Licensing Funding		(3,200,000)	
APF - Remove Lottery IT System Replacement Funding		(3,497,400)	
APF - Remove Industrial Commission Claims Processing System		(1,017,400)	
APF - Remove Statewide e-Licensing Project Funding		(595,500)	
AGR - Department of Agriculture	1,716,500		1,709,400
AGR - Remove Health Insurance Adjustment		(7,100)	
AXS - AHCCCS	361,527,400		328,494,100
AXS - Remove Health Insurance Adjustment		(8,100)	
AXS - Formula Changes		(33,025,200)	
ART - Arizona Commission on the Arts	1,500,000		0
ART - One-Time BSF Funding		(1,500,000)	
BAT - Board of Athletic Training	120,600		119,100
BAT - Remove Health Insurance Adjustment		(1,500)	
ATT - Attorney General	46,213,900		45,819,700
ATT - Remove Health Insurance Adjustment		(394,200)	
ATA - Automobile Theft Authority	5,301,400		5,295,500
ATA - Remove Health Insurance Adjustment		(5,900)	
BAR - Board of Barbers	345,800		341,800
BAR - Remove Health Insurance Adjustment		(4,000)	
BHE - Board of Behavioral Health Examiners	1,777,800		1,759,100
BHE - Remove Health Insurance Adjustment		(18,700)	

	FY 2018 OF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 OF JLBC Baseline
DCS - Department of Child Safety	180,610,300		181,111,700
DCS - Remove One-Time Litigation Support		(2,471,200)	
DCS - TANF Cash Assistance Shift From DES		2,972,600	
BCE - State Board of Chiropractic Examiners	455,100		451,100
BCE - Remove Health Insurance Adjustment		(4,000)	
ROC - Registrar of Contractors	12,268,400		12,165,400
ROC - Remove Health Insurance Adjustment		(103,000)	
COR - Corporation Commission	26,652,400		26,325,600
COR - Remove Health Insurance Adjustment		(326,800)	
ADC - Department of Corrections	51,553,200		51,547,700
ADC - Remove Health Insurance Adjustment		(5,500)	
COS - Board of Cosmetology	1,864,500		1,839,400
COS - Remove Health Insurance Adjustment		(25,100)	
JUS - Arizona Criminal Justice Commission	9,202,600		6,445,400
JUS - Remove Health Insurance Adjustment		(7,200)	
JUS - Remove One-time Felony Pre-Trial Intervention Funding		(2,750,000)	
SDB - AZ State Schools for the Deaf and the Blind	11,878,700		11,500,100
SDB - Remove Health Insurance Adjustment		(39,800)	
SDB - Enrollment Change		(533,900)	
SDB - Base Level Increase		195,100	
HEA - Comm for the Deaf & the Hard of Hearing	4,622,600		4,601,500
HEA - Remove Health Insurance Adjustment		(18,300)	
HEA - Remove One-Time Hearing Aid Assistance		(2,800)	
DEN - Board of Dental Examiners	1,229,900		1,214,500
DEN - Remove Health Insurance Adjustment		(15,400)	
DES - Department of Economic Security	294,107,700		287,772,400
DES - Remove Health Insurance Adjustment		(662,700)	
DES - TANF Cash Assistance Shift To DCS		(2,972,600)	
DES - Remove One-Time APS Funding (Health Lottery Fund)		(2,000,000)	
DES - Remove One-time Area Agencies on Aging Funding		(700,000)	
ADE - Arizona Department of Education	254,458,700		290,094,800
ADE - Remove Health Insurance Adjustment		(24,600)	
ADE - Land Trust Distribution		41,260,700	
ADE - Remove One-Time Rural Schools Distribution		(2,600,000)	
ADE - Remove One-Time Broadband Funding		(3,000,000)	
EMA - Department of Emergency & Military Affairs	1,438,400		1,461,600
EMA - Nuclear Emergency Management Fund Increase		23,200	

	FY 2018 OF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 OF JLBC Baseline
DEQ - Department of Environmental Quality	80,222,400		73,386,300
DEQ - Remove Health Insurance Adjustment		(299,200)	
DEQ - Remove One-time WQARF Funding Increase		(6,536,900)	
COL - Arizona Exposition and State Fair Board	12,153,300		12,113,300
COL - Remove Health Insurance Adjustment		(40,000)	
DFI - Dept of Financial Institutions	3,226,800		3,197,500
DFI - Remove Health Insurance Adjustment		(23,300)	
DFI - Remove One-Time Equipment Funding		(6,000)	
EMB - Board of Funeral Directors and Embalmers	378,200		373,300
EMB - Remove Health Insurance Adjustment		(4,900)	
FIS - Arizona Game and Fish Department	44,309,200		42,488,300
FIS - Remove Health Insurance Adjustment		(349,200)	
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)	
GAM - Department of Gaming	15,624,200		14,550,300
GAM - Remove Health Insurance Adjustment		(55,500)	
GAM - Remove One-Time Breeders' Award Fund Deposit		(250,000)	
GAM - Align Gaming Division Funding w/ Reduced Revenue		(768,400)	
DHS - Department of Health Services	52,606,500		50,888,000
DHS - Remove Health Insurance Adjustment		(344,900)	
DHS - Reduce ASH Fund (Shift of GF Monies From AHCCCS)		(1,200,000)	
DHS - Remove One-time ASH Equipment Funding		(320,000)	
DHS - Remove One-time Alzheimer's Research Funding		(1,000,000)	
DHS - Remove One-Time Public Health Emergency Funding		(500,000)	
DHS - Radiation Regulatory Agency Transfer to DHS		1,646,400	
HOM - Board of Homeopathic & Integrated Medicine Examiners	89,000		87,300
HOM - Remove Health Insurance Adjustment		(1,700)	
DOH - Department of Housing	323,200		318,500
DOH - Remove Health Insurance Adjustment		(4,700)	
IND - Industrial Commission	20,110,400		19,881,300
IND - Remove Health Insurance Adjustment		(229,100)	
SPA - Judiciary - Supreme Court	30,313,800		30,108,800
SPA - Remove Health Insurance Adjustment		(68,000)	
SPA - Shift Risk Management Adjustment to GF		(137,000)	
SUP - Judiciary - Superior Court	12,203,300		11,953,300
SUP - Remove One-Time Drug Treatment Alternative to Prison		(250,000)	
DJC - Department of Juvenile Corrections	16,655,100		16,390,800
DJC - Remove Health Insurance Adjustment		(264,300)	

	FY 2018 OF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 OF JLBC Baseline
LAN - State Land Department	7,250,000		4,797,100
LAN - Remove Health Insurance Adjustment		(2,900)	
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)	
LAN - Remove One-Time Workflow Digitization		(500,000)	
Legislature			
LEG - Auditor General	200,000		0
LEG - Remove One-Time Funding For CAWCD Audit		(200,000)	
LIQ - Department of Liquor Licenses & Control	3,047,500		3,007,400
LIQ - Remove Health Insurance Adjustment		(40,100)	
LOT - Arizona State Lottery Commission	116,778,600		120,525,100
LOT - Remove Health Insurance Adjustment		(104,800)	
LOT - Sales Adjustment		3,851,300	
BMT - Board of Massage Therapy	466,100		461,100
BMT - Remove Health Insurance Adjustment		(5,000)	
MED - Arizona Medical Board	7,006,900		6,949,000
MED - Remove Health Insurance Adjustment		(57,900)	
MIN - State Mine Inspector	112,900		112,900
NAT - Naturopathic Physicians Medical Board	183,000		180,200
NAT - Remove Health Insurance Adjustment		(2,800)	
NAV - Navigable Stream Adjudication Commission	200,000		200,000
NUR - State Board of Nursing	4,860,500		4,784,800
NUR - Remove Health Insurance Adjustment		(55,700)	
NUR - Remove One-Time Server Relocation Funding		(20,000)	
NCI - Nursing Care Inst. Administrators Board	426,500		421,400
NCI - Remove Health Insurance Adjustment		(5,100)	
OCC - Board of Occupational Therapy Examiners	183,700		170,700
OCC - Remove Health Insurance Adjustment		(3,000)	
OCC - Remove One-Time Funding for Multi-Function Printer		(10,000)	
DIS - State Board of Dispensing Opticians	141,700		140,000
DIS - Remove Health Insurance Adjustment		(1,700)	
OPT - State Board of Optometry	222,200		220,100
OPT - Remove Health Insurance Adjustment		(2,100)	
OST - AZ Board of Osteopathic Examiners in Medicine/Surgery	913,100		905,500
OST - Remove Health Insurance Adjustment		(7,600)	

	FY 2018 OF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 OF JLBC Baseline
SPB - Arizona State Parks Board	14,401,500		14,254,100
SPB - Remove Health Insurance Adjustment		(147,400)	
PER - Personnel Board	378,100		375,300
PER - Remove Health Insurance Adjustment		(2,800)	
PHA - Arizona State Board of Pharmacy	2,285,100		2,148,200
PHA - Remove Health Insurance Adjustment		(22,400)	
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)	
PHY - Board of Physical Therapy Examiners	448,000		441,200
PHY - Remove Health Insurance Adjustment		(6,800)	
PIO - Arizona Pioneers' Home	6,605,600		6,492,600
PIO - Remove Health Insurance Adjustment		(113,000)	
POD - State Board of Podiatry Examiners	149,700		148,400
POD - Remove Health Insurance Adjustment		(1,300)	
POS - Commission for Postsecondary Education	1,541,100		1,534,100
POS - Remove Health Insurance Adjustment		(7,000)	
PRI - Board for Private Postsecondary Education	421,000		396,100
PRI - Remove Health Insurance Adjustment		(4,100)	
PRI - Remove One-Time Leave Payout Funding		(20,800)	
PSY - State Board of Psychologist Examiners	480,600		475,400
PSY - Remove Health Insurance Adjustment		(5,200)	
DPS - Department of Public Safety	174,648,700		171,280,700
DPS - Remove Health Insurance Adjustment		(1,668,000)	
DPS - Remove One-Time Crime Lab Replacement Equipment		(700,000)	
DPS - Remove One-Time In-Car Cameras Funding		(500,000)	
DPS - Remove One-Time Camera IT Infrastructure Funding		(500,000)	
RAD - Radiation Regulatory Agency	1,646,400		0
RAD - Nuclear Emergency Management Fund Shift to DHS		(1,646,400)	
RUC - Residential Utility Consumer Office	1,344,300		1,331,400
RUC - Remove Health Insurance Adjustment		(12,900)	
RES - Board of Respiratory Care Examiners	323,300		300,300
RES - Remove Health Insurance Adjustment		(3,500)	
RES - Remove One-Time Temporary Caseload Funding		(19,500)	
RET - Arizona State Retirement System	25,167,700		24,359,200
RET - Remove Health Insurance Adjustment		(283,500)	
RET - Operating Budget Savings		(225,000)	
RET - Long-Term Disability Contract Savings		(300,000)	

	FY 2018 OF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 OF JLBC Baseline
REV - Department of Revenue	46,442,400		46,284,900
REV - Remove Health Insurance Adjustment		(157,500)	
SOS - Secretary of State	3,695,500		3,681,500
SOS - Remove Health Insurance Adjustment		(14,000)	
TEC - State Board of Technical Registration	2,233,700		2,204,400
TEC - Remove Health Insurance Adjustment		(29,300)	
DOT - Department of Transportation	390,625,600		381,675,300
DOT - Remove Health Insurance Adjustment		(4,555,300)	
DOT - Remove One-Time Driver Safety/Livestock Control Funding		(1,600,000)	
DOT - Remove One-Time Grand Canyon Airport Project Funding		(265,000)	
DOT - Remove One-Time Flagstaff Building Equipment		(2,530,000)	
TRE - State Treasurer	5,379,400		5,343,100
TRE - Remove Health Insurance Adjustment		(36,300)	
UNI - Universities			
UNI - ASU	685,232,600		685,232,600
UNI - Northern Arizona University	157,431,100		157,431,100
UNI - UA - Main Campus	410,094,700		410,094,700
UNI - UA - Health Sciences Center	49,749,000		49,749,000
VSC - Department of Veterans' Services	35,492,700		35,147,600
VSC - Remove Health Insurance Adjustment		(345,100)	
VME - Veterinary Medical Examining Board	590,000		584,800
VME - Remove Health Insurance Adjustment		(5,200)	
WAT - Department of Water Resources	2,119,600		2,119,100
WAT - Remove Health Insurance Adjustment		(500)	
OTH - Other			
OTH - FY 18 Supplementals/Ex-Appropriations	13,636,300	(13,636,300)	0
OTH - HITF One-Time Employer Premium	4,235,700	(4,235,700)	0
TOTAL - OPERATING SPENDING CHANGES	\$3,981,361,000	(110,310,600)	\$3,871,050,400
CAPITAL SPENDING CHANGES			
Building Renewal			
Arizona Department of Administration	2,600,000		2,600,000
ADC Building Renewal	5,464,300		5,464,300
Game & Fish Department	530,000		530,000
Arizona Lottery Commission	122,200	4,100	126,300
Arizona Department of Transportation	4,732,300		4,732,300
New Projects			
ADOT Statewide Highway Construction	104,570,000	10,382,000	114,952,000
ADOT Bulk Storage Buildings	1,100,000	(1,100,000)	0

	FY 2018 OF 1/ JLBC Baseline	FY 19 Baseline 2/ Above FY 18	FY 2019 OF JLBC Baseline
ADOT Safford Equipment Shop	4,000,000	(4,000,000)	0
ADOT Tempe Vehicle Storage	240,000	(240,000)	0
ADOT Controlled Access	101,899,000	1,934,000	103,833,000
ADOT Debt Service	108,817,000	35,415,000	144,232,000
ADOT Airport Planning	24,555,300	(5,756,800)	18,798,500
Local Transportation Funding	30,000,000		30,000,000
ADC - Door Locking Systems	1,450,000	(1,450,000)	0
Arizona Exposition and State Fair	1,000,000	(1,000,000)	0
State Parks Board - Rockin River	4,000,000	(4,000,000)	0
State Parks Board Capital Projects	1,300,000	(1,300,000)	0
TOTAL - CAPITAL SPENDING CHANGES	\$396,380,100	28,888,300	\$425,268,400
TOTAL - OPERATING & CAPITAL SPENDING	\$4,377,741,100	(81,422,300)	\$4,296,318,800
FUND TRANSFERS			
APF/DOA - Automation Projects Fund - All For IT Projects			
APF/DOA - Automation Operations from ADOA	6,703,000	(5,203,000)	1,500,000
APF/DOA - State Web Portal from ADOA	5,065,600	(5,065,600)	0
APF/DOA - IT Fund from DOA	500,000	(500,000)	0
APF/DOA - Risk Management from ADOA	440,000	(440,000)	0
APF/DOA - Acupuncture Board of Examiner Fund for e-Licensing	45,900	(45,900)	0
APF/DOA - Athletic Training Fund for e-Licensing	45,900	(45,900)	0
APF/DOA - Board of Barbers Fund for e-Licensing	40,000	(40,000)	0
APF/DOA - Board of Funeral Directors' & Embalmers' Fund (e-Lic.)	27,500	(27,500)	0
APF/DOA - Nursing Care Administrators Fund for e-Licensing	27,500	(27,500)	0
APF/DOA - Occupational Therapy Fund for e-Licensing	45,900	(45,900)	0
APF/DOA - Board of Dispensing Opticians Fund for e-Licensing	27,500	(27,500)	0
APF/DOA - Board of Optometry Fund for e-Licensing	45,900	(45,900)	0
APF/DOA - Board of Physical Therapy Fund for e-Licensing	45,900	(45,900)	0
APF/DOA - Podiatry Fund for e-Licensing	27,500	(27,500)	0
APF/DOA - Board for Private Postsecondary Ed. Fund (e-Lic.)	80,200	(80,200)	0
APF/DOA - Board of Psychologist Examiners Fund for e-Licensing	91,700	(91,700)	0
APF/DOA - Board of Respiratory Care Examiners for e-Licensing	44,100	(44,100)	0
APF/DOA - Underground Storage Tank from DEQ	3,200,000	(3,200,000)	0
APF/DOA - Admin Fund from Industrial Commission	1,017,400	(1,017,400)	0
APF/DOA - State Lottery Fund from Lottery Commission	3,497,400	(3,497,400)	0
APF/DOA - Public Safety Equipment Fund from DPS	1,000,000	(1,000,000)	0
APF/DOA - Concealed Weapons Permit Fund from DPS	2,500,000	(2,500,000)	0
APF/DOA - Fingerprint Clearance Card Fund from DPS	1,343,000	(1,343,000)	0
APF/DOA - Administrative Fund from DOR	4,000,000	(4,000,000)	0
APF/DOA - Liability Setoff Program Revolving Fund from DOR	4,000,000	(4,000,000)	0
Other Transfers			
ADC - Locking Systems - ADC Building Ren. Fund from ARCOR	1,450,000	(1,450,000)	0
DHS - State Hospital Fund from Health Service Lottery Fund	1,300,000	(1,300,000)	0
TOTAL - FUND TRANSFERS	\$36,611,900	(35,111,900)	\$1,500,000

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.

FY 2018 SUPPLEMENTALS

	Change to Original '18 Budget
General Fund	
AHCCCS - Funding Formula Savings	(\$9,043,500)
Department of Economic Security - Funding Formula Savings	(3,000,000)
Department of Education - Funding Formula Costs	10,533,200
State Land Department - CAP User Fees	449,100
General Fund - Total	(\$1,061,200)
 Other Funds	
Arizona Department of Administration - Federal Financial Participation Repayment	\$14,404,700
Department of Gaming - Operating Expenses	(768,400)
Other Funds - Total	\$13,636,300
 Expenditure Authority	
AHCCCS - Expenditure Authority	\$75,703,600
Expenditure Authority - Total	\$75,703,600

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2017, 2018 and 2019 1/

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
BUDGET UNITS			
Department of Administration (ADA)			
Administration - AFIS II Collections (4203)	\$0	\$0	\$0
Certificate of Participation (5005)	134,768,800	138,705,900	139,344,800
Construction Insurance (4219)	1,896,300	6,805,000	6,324,000
Co-Op State Purchasing Agreement (4213)	3,513,900	3,200,000	4,100,000
Emergency Telecommunication Services Revolving (2176)	16,669,700	18,107,200	18,107,200
Employee Related Expenditures/Benefits Admin (ITA3035)	33,015,000	32,931,300	32,931,300
Federal Grants (2000)	3,572,400	1,686,700	1,686,700
IGA and ISA (2500)	8,701,000	6,075,400	6,075,400
Oil Overcharge (GVA3171)	385,800	231,300	0
Payroll Administration (9200)	796,800	64,400	64,400
Retiree Accumulated Sick Leave (3200)	15,481,100	16,240,400	16,240,400
Special Employee Health Insurance Trust (3015)	885,384,400	936,286,900	985,865,600
Special Events (2503)	16,400	9,000	9,000
Special Services Revolving (4208)	658,000	785,900	785,900
State Employee Travel Reduction (2261)	305,900	833,900	833,900
State Web Portal (2531)	0	0	0
Statewide ARRA Administration SWCAP (GVA2950)	0	0	0
Statewide Donations (2025)	15,300	4,500	4,500
Total - Department of Administration	<u>\$1,105,180,800</u>	<u>\$1,161,967,800</u>	<u>\$1,212,373,100</u>
Office of Administrative Hearings (HGA)			
IGA and ISA (2500)	\$820,600	\$812,600	\$812,600
Arizona Commission of African-American Affairs (AMA)			
African-American Affairs, Arizona Commission of (2397)	\$7,800	\$15,000	\$15,000
Arizona Department of Agriculture (AHA)			
Administrative Support (2436)	\$40,800	\$40,300	\$40,300
Agricultural Consulting and Training Trust (1239)	200	11,700	11,700
Agricultural Products Marketing (2368)	399,000	405,300	405,300
Aquaculture Trust (2297)	0	6,200	6,200
Beef Council (2083)	301,800	300,000	300,000
Citrus, Fruit and Vegetable Trust (2260)	332,500	395,000	395,000
Citrus Trust (2299)	50,800	66,800	66,800
Commercial Feed Trust (2012)	252,800	278,500	278,500
Commodity Promotion (2458)	10,400	9,000	9,000
Cotton Research and Protection Council (2013)	2,357,000	3,339,000	3,339,000
Dangerous Plants, Pests and Diseases Trust (2054)	94,400	127,200	127,200
Designated (3011)	476,500	843,600	843,600
Egg Inspection Trust (2022)	1,455,100	1,623,400	1,623,400
Equine Inspection (2489)	0	0	0
Federal (2000)	5,238,100	5,447,800	5,447,800
Federal-State Inspection (2113)	2,779,600	3,090,500	3,090,500
Fertilizer Materials Trust (2081)	254,600	321,900	321,900
Grain Trust (2201)	150,300	144,900	144,900
Iceberg Lettuce Trust (2259)	98,500	100,000	100,000
IGA and ISA (2500)	56,700	0	0
Indirect Cost Recovery (9000)	273,000	313,300	313,300
Livestock and Crop Conservation (2378)	481,300	232,500	232,500
Livestock Custody Trust (2065)	61,500	153,100	153,100
Nuclear Emergency Management (2138)	0	0	0
Pest Management Trust (2050)	1,492,300	1,600,000	1,600,000
Pesticide Trust (2051)	313,100	334,300	334,300
Protected Native Plant Trust (2298)	78,900	83,800	83,800
Seed Law Trust (2064)	54,000	61,400	61,400
Total - Arizona Department of Agriculture	<u>\$17,103,200</u>	<u>\$19,329,500</u>	<u>\$19,329,500</u>
AHCCCS (HCA)			
County Funds (2120/2223)	\$300,633,300	\$314,132,800	\$316,931,300
Delivery System Reform Incentive Payment (2130)	0	6,344,400	21,773,100
Employee Recognition (2025)	1,400	1,400	1,400
Federal - Medicaid Direct Services (2120)	30,859,600	46,352,600	45,792,900
Federal (2000)	62,906,700	73,096,600	73,096,600

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Federal Grants - American Recovery and Reinvestment Act (2999)	19,025,100	48,600,000	48,600,000
Federal Medicaid Authority (2120/2223)	7,929,709,600	8,636,179,300	9,174,166,000
Hospital Assessment (9692)	238,267,200	286,512,600	290,643,900
Hospital Loan Residency (2532)	0	0	0
IGA for County Behavioral Health Services (4503)	60,510,600	63,059,800	63,059,800
Intergovernmental Service (2438)	8,135,100	8,135,100	8,135,100
Nursing Facility Provider Assessment (2567)	24,564,600	32,989,400	32,989,400
Political Subdivision (1111)	115,294,000	133,152,900	102,023,400
Prescription Drug Rebate (2546)	536,111,500	465,663,000	550,507,200
Proposition 202 - Trauma and Emergency Services (2494)	22,095,900	24,089,700	24,089,700
Seriously Mentally Ill Housing Trust (2555)	526,200	3,140,900	3,140,900
Third Party Liability and Recovery (3791/3019)	0	1,498,300	1,498,300
Tobacco Litigation Settlement, Arizona (TRA2561)	101,521,700	79,000,000	87,000,000
Tobacco Tax and Health Care - Medically Needy Account (1306)	0	0	0
Tobacco Products Tax Fund - Proposition 204 Protection Account (1303)	37,521,000	40,413,000	37,728,900
Total - AHCCCS	<u>\$9,487,683,500</u>	<u>\$10,262,361,800</u>	<u>\$10,881,177,900</u>
Arizona Commission on the Arts (HUA)			
Arts Special Revenues (2116)	\$237,300	\$265,000	\$265,000
Arts Trust, Arizona (3043)	1,164,700	1,482,400	1,482,400
Federal Grants (2000)	833,000	821,600	821,300
State Poet Laureate (2569)	0	0	0
Total - Arizona Commission on the Arts	<u>\$2,235,000</u>	<u>\$2,569,000</u>	<u>\$2,568,700</u>
Attorney General - Department of Law (AGA)			
Anti-Racketeering Revolving (2131)	\$17,939,000	\$13,526,700	\$13,526,700
Attorney General Expendable Trust (3102)	1,099,800	1,846,900	1,846,900
Child and Family Advocacy Center (2540)	0	0	0
CJEF Distribution to County Attorneys (2068)	3,249,300	3,484,900	3,484,900
Colorado River Land Claims Revolving (2430)	0	0	0
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving (2573)	445,200	2,107,900	2,107,900
Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving (2573)	950,000	0	0
Court-Ordered Trust (3180)	2,492,600	0	0
Criminal Case Processing (2461)	30,400	123,900	123,900
Federal Grants (2000)	5,582,000	7,587,300	7,587,300
Indirect Cost Recovery (9000)	6,921,500	9,630,600	9,630,600
Intergovernmental Agreements (2500)	21,811,400	29,455,500	29,455,500
Motor Carrier Safety Revolving (2380)	0	0	0
Prosecuting Attorneys' Advisory Council Training (2057)	1,022,800	1,022,200	1,022,200
Victim Witness Assistance (2228)	14,300	0	0
Total - Attorney General - Department of Law	<u>\$61,558,300</u>	<u>\$68,785,900</u>	<u>\$68,785,900</u>
Automobile Theft Authority (ATA)			
Settlement (1991)	\$73,300	\$14,800	\$14,800
State Board for Charter Schools (CHA)			
Charter Arizona Online Instruction Processing (2319)	\$6,000	\$3,000	\$3,000
Implementation Project (2025)	0	0	0
New Charter Application Processing (2568)	26,000	58,500	58,500
Total - State Board for Charter Schools	<u>\$32,000</u>	<u>\$61,500</u>	<u>\$61,500</u>
Department of Child Safety (CHA)			
Child Restraint (2192)	\$0	\$0	\$0
Child Safety Expedited Substance Abuse Treatment (2421)	0	0	0
Child Safety Expenditure Authority (2009)	371,629,700	415,540,800	403,904,300
Client Trust (3152)	0	0	0
Economic Security Donations (3145)	0	0	0
Joint Substance Abuse Treatment (2429)	0	0	0
Total - Department of Child Safety	<u>\$371,629,700</u>	<u>\$415,540,800</u>	<u>\$403,904,300</u>
Citizens Clean Elections Commission (ECA)			
Citizens Clean Elections (2425)	\$7,210,600	\$19,128,700	\$19,128,700
Arizona Commerce Authority (CAA)			
Application Fees (3005)	\$0	\$469,800	\$469,800
Commerce Authority, Arizona (2547)	0	0	0
Commerce Authority Carryover, Arizona (1001)	765,900	2,062,800	491,800
Commerce Authority Local Communities, Arizona (EPA2498)	100	0	0

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Commerce Development Bond (2196)	386,400	0	0
Competes, Arizona (2548)	0	0	0
Donations (3189)	173,200	13,000	13,000
Federal (2000)	1,420,100	1,550,100	1,550,100
Innovation Accelerator, Arizona (9507)	127,200	153,600	153,600
Job Training (1237)	4,095,400	5,400,000	5,400,000
Mexico Trade Office (9972)	119,600	0	0
RevAZ (9971)	92,500	29,000	29,000
Total - Arizona Commerce Authority	\$7,180,400	\$9,678,300	\$8,107,300
Arizona Community Colleges (CMA)			
Tribal Assistance (NA)	\$770,000	\$767,600	\$767,600
Workforce Development Accounts (varies by account)	18,099,500	18,906,800	18,906,800
Total - Arizona Community Colleges	\$18,869,500	\$19,674,400	\$19,674,400
Constable Ethics Standards and Training Board (CNA)			
Constable Ethics Standards and Training (2346)	\$298,300	\$445,400	\$445,400
Registrar of Contractors (RGA)			
Residential Contractors' Recovery (3155)	\$2,216,600	\$4,666,800	\$4,666,800
Corporation Commission (CCA)			
Federal (2000)	\$1,032,700	\$825,000	\$825,000
IGA and ISA (2500)	0	0	0
Utility Siting (2076)	0	0	0
Total - Corporation Commission	\$1,032,700	\$825,000	\$825,000
State Department of Corrections (DCA)			
Correctional Industries Revolving, Arizona (4002)	\$39,007,700	\$43,483,100	\$43,483,100
Community Corrections Enhancement (2395)	446,400	503,600	503,600
Corrections Donations (3147)	15,200	2,900	2,900
Federal (2000)	7,848,300	8,773,000	8,480,000
Indirect Cost Recovery (9000)	43,300	341,100	341,100
Inmate Store Proceeds (2505)	5,633,600	5,400,000	5,400,000
Interagency Service Agreement (2500)	61,400	54,300	54,300
Special Services (3187)	4,477,600	6,660,000	6,660,000
State DOC Revolving (2515)	3,813,900	2,581,500	2,581,500
Statewide Employee Recognition Gifts/Donations (2449)	0	0	0
Total - State Department of Corrections	\$61,347,400	\$67,799,500	\$67,506,500
Arizona Criminal Justice Commission (JCA)			
Drug and Gang Enforcement (2516)	\$7,167,200	\$4,987,300	\$4,987,300
Federal Grants (2000)	6,708,600	6,810,300	6,810,300
Total - Arizona Criminal Justice Commission	\$13,875,800	\$11,797,600	\$11,797,600
Arizona State Schools for the Deaf and the Blind (SDA)			
ASDB Classroom Site (2486)	\$2,198,600	\$1,822,100	\$1,822,100
Enterprise (4222)	38,700	36,400	36,400
Federal Grants (2000)	2,219,800	2,213,500	2,213,500
IGA and ISA (2500)	0	0	0
Instructional Improvement (2492)	0	0	0
Regional Cooperatives (4221)	14,892,200	14,892,200	14,892,200
State Grants (2011)	716,200	688,200	688,200
Trust (3148)	74,100	82,700	69,700
Total - Arizona State Schools for the Deaf and the Blind	\$20,139,600	\$19,735,100	\$19,722,100
Commission for the Deaf and the Hard of Hearing (DFA)			
Private Grants (3000)	\$0	\$0	\$0
Arizona Early Childhood Development and Health Board			
Early Childhood Development and Health (2542)	\$131,895,400	\$136,163,700	\$134,808,500
Federal Grants (2000)	5,680,600	9,158,300	8,284,900
Total - Arizona Early Childhood Development and Health Board	\$137,576,000	\$145,322,000	\$143,093,400
Office of Economic Opportunity (EOA)			
Clean Water Revolving (FAA2254)	\$63,836,200	\$90,338,300	\$90,338,300
Drinking Water Revolving (FAA2307)	20,251,800	48,998,800	48,998,800
Economic Development (3337)	0	0	0
Economic Opportunity Operations, Office of (9903)	150,400	811,500	811,500
Federal Grants (2000)	18,014,200	20,745,800	20,745,800
Finance Authority Operations, Arizona (FAA5352)	0	12,900	12,900
Greater Arizona Development Authority Revolving (FAA2311)	33,500	32,400	32,400
IGA and ISA (2500)	86,000	2,830,000	600,700
Small Drinking Water Systems (FAA2225)	0	0	0
Total - Office of Economic Opportunity	\$102,372,100	\$163,769,700	\$161,540,400

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Department of Economic Security (DEA)			
Child Support Enforcement Administration (2091)	\$32,837,000	\$42,299,500	\$42,299,500
Client Trust (3152)	367,900	721,600	721,600
Developmentally Disabled Client Investment (3146)	15,600	15,600	15,600
Developmentally Disabled Client Services Trust (2019)	35,700	35,500	35,500
Donations (3145)	2,800	21,400	21,400
Economic Security Capital Investment (2093)	32,300	242,700	242,700
Employee Recognition (2449)	8,500	8,500	8,500
Federal Grants (2000)	1,862,208,000	1,849,986,700	1,849,986,700
Industries for the Blind, Arizona (4003)	16,937,800	250,000	0
IGA and ISA (2500)	80,400	2,099,600	0
Job Training, Arizona (1237)	0	0	0
Long Term Care System - Federal Match (2225)	769,171,900	1,040,540,700	1,153,447,500
Neighbors Helping Neighbors (2348)	35,300	35,000	35,000
Special Olympics Tax Refund (3207)	86,900	86,900	86,900
Unemployment Insurance Benefits (7510)	264,909,100	277,400,000	296,700,000
Unemployment Special Assessment (2558)	867,600	0	0
Total - Department of Economic Security	\$2,947,596,800	\$3,213,743,700	\$3,343,600,900
Department of Education (EDA)			
Agricultural Youth Organization Special Plate, Arizona (2650)	\$169,200	\$169,200	\$169,200
Assistance for Education (2420)	44,200	28,500	28,500
Broadband Expansion (2145)	0	0	0
Character Education Special Plate (2522)	30,600	31,500	31,500
Department of Education Empowerment Scholarship Account (2570)	15,200	0	0
Early Literacy Grant Program (2181)	0	0	0
Education Commodity (4210)	272,200	353,300	353,300
Education Donations (2025)	24,300	4,000	4,000
Education Learning and Accountability (2552)	0	0	0
Federal (2000)	1,141,087,700	1,158,886,800	1,158,886,800
Golden Rule Special Plate (2366)	219,100	219,100	219,100
IGA and ISA (2500)	19,677,600	13,637,100	13,637,100
Indirect Cost Recovery (9000)	5,473,800	7,293,200	7,293,200
Internal Services (4209)	4,651,100	5,463,600	5,463,600
Production Revolving (4211)	1,048,500	1,457,400	1,457,400
Proposition 301 (9001)	480,047,800	504,629,900	504,629,900
Proposition 301/Classroom Site - Carry-Forward (9003)	0	38,876,100	38,876,100
Proposition 301/Classroom Site - Land Trust (9002)	96,487,500	83,093,400	83,093,400
Results-Based Funding (2151)	0	0	0
Rural STEM Program (3046)	0	0	0
Special Education (1009)	0	0	0
Structured English Immersion, Arizona (2535)	0	0	0
Tribal Gaming (9004)	56,782,100	45,000,000	45,000,000
Youth Farm Loan, Arizona (2136)	0	26,000	26,000
Total - Department of Education	\$1,806,030,900	\$1,859,169,100	\$1,859,169,100
Department of Emergency and Military Affairs (MAA)			
Camp Navajo (2106)	\$13,809,100	\$17,103,500	\$15,681,200
Emergency Management Assistance Compact Revolving (2602)	0	0	0
Federal - Emergency (2000)	9,605,300	13,314,500	7,644,500
Federal - Military (2000)	33,367,900	38,074,500	30,368,200
Indirect Cost Recovery (9000)	648,700	983,400	983,400
Interagency Service Agreement (2500)	888,000	1,018,800	669,800
Military Installation (1010)	0	0	0
Morale, Welfare and Recreational (2124)	19,100	220,000	110,000
National Guard (2140)	59,000	200,000	100,000
Total - Department of Emergency and Military Affairs	\$58,397,100	\$70,914,700	\$55,557,100
Department of Environmental Quality (EVA)			
Donations (2449)	\$3,100	\$4,400	\$4,400
Federal (2000)	14,735,100	16,646,300	15,484,000
IGA and ISA (2500)	5,937,100	7,453,800	7,453,800
Institutional and Engineering Control (2563)	34,600	24,700	24,700
Intergovernmental Agreement (2180)	0	0	0
Monitoring Assistance (2308)	744,900	753,500	753,500
Specific Site Judgment (3006)	36,700	40,000	40,000
Underground Storage Tank Revolving Summary (2271)	27,732,700	40,509,800	37,309,800
Voluntary Remediation (2564)	312,000	315,400	315,400

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Voluntary Vehicle Repair and Retrofit Program (2365)	0	1,005,000	1,005,000
Water Quality Assurance Revolving (2221)	11,961,800	15,965,900	15,965,900
Total - Department of Environmental Quality	\$61,498,000	\$82,718,800	\$78,356,500
Governor's Office of Equal Opportunity (AFA)			
Equal Employment and Economic Development (2000)	\$0	\$0	\$0
Board of Executive Clemency (PPA)			
IGA and ISA (2500)	\$55,400	\$41,000	\$41,000
State Department of Financial Institutions (BDA)			
Appraisal Subcommittee (2004)	\$0	\$0	\$0
IGA and ISA (2500)	1,100	0	0
Mortgage Recovery (1997)	0	0	0
Receivership Revolving (3023)	458,700	475,000	30,000
Revolving (2126)	765,000	859,800	859,800
Total - State Department of Financial Institutions	\$1,224,800	\$1,334,800	\$889,800
Arizona Department of Forestry and Fire Management (FFM)			
Arson Detection Reward (2169)	\$0	\$0	\$0
Cooperative Forestry (2232)	8,180,500	7,991,500	7,991,500
Fire Suppression Revolving (2360)	50,751,900	31,243,300	31,243,300
IGA and ISA (2500)	16,900	0	0
Trampoline Court Safety (2578)	0	0	0
Total - Arizona Department of Forestry and Fire Management	\$58,949,300	\$39,234,800	\$39,234,800
Arizona Game and Fish Department (GFA)			
Big Game Permit (3712)	\$0	\$0	\$0
Conservation Development (2062)	2,156,500	1,007,700	1,007,700
Federal (2000)	2,200	0	0
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Federal Revolving (2028)	47,696,400	44,547,400	44,547,400
Firearms Safety and Ranges (2442)	35,800	35,800	35,800
Game and Fish Federal Duck Stamps (3711)	0	0	0
Game and Fish In-Lieu Fee Program Restoration Endowment Trust (3167)	0	0	0
Game and Fish Publications Revolving (4007)	168,600	168,600	168,600
Game and Fish Special Stamp Collection (3709)	0	0	0
Game and Fish Stamps (3708)	0	0	0
Game and Fish Trust (3111)	2,904,400	2,886,500	2,886,500
Heritage (2295)	8,312,300	9,597,100	9,597,100
IGA and ISA (2500)	0	0	0
Indirect Cost Recovery (9000)	5,568,000	6,836,500	6,836,500
Kaibab Co-op (3714)	0	0	0
Livestock Compensation (3103)	0	0	0
Off Highway Vehicle Recreation (2253)	1,838,300	1,902,000	1,902,000
Wildlife Conservation (2497)	6,200,800	7,828,800	7,828,800
Wildlife Conservation Enterprise (2029)	1,007,200	735,000	735,000
Wildlife Theft Prevention (2080)	186,800	260,800	260,800
Total - Arizona Game and Fish Department	\$76,077,300	\$75,806,200	\$75,806,200
Department of Gaming (GMA)			
Breeders Award, Arizona (2206)	\$0	\$30,000	\$30,000
DPS-FBI Fingerprint (2159)	55,500	50,000	50,000
Greyhound and Retired Racehorse Adoption (2015)	1,400	1,400	1,400
IGA and ISA (2500)	1,424,700	1,320,000	1,320,000
Racing Administration (2018)	0	0	0
Racing Commission Bond Deposit (3720)	0	0	0
Racing Investigation (2369)	0	0	0
Racing Regulation - Mixed Martial Arts Account (2393)	29,200	19,400	19,700
Total - Department of Gaming	\$1,510,800	\$1,420,800	\$1,421,100
Office of the Governor (GVA)			
County Fairs Livestock and Agriculture Promotion (2037)	\$0	\$0	\$0
Federal Grants (2000)	16,204,900	27,015,700	27,015,700
Foster Youth Education Success (NA)	0	0	0
Governor's Endowment Partnership (3206)	84,700	78,700	78,700
IGA and ISA (2500)	746,800	713,000	713,000
Indirect Cost Recovery (9000)	3,742,000	1,462,400	1,462,400
Prevention of Child Abuse (2439)	241,200	231,600	231,600
Total - Office of the Governor	\$21,019,600	\$29,501,400	\$29,501,400
Department of Health Services (HSA)			

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Arizona State Hospital Charitable Trust (3170)	\$0	\$0	\$0
Breast and Cervical Cancer Screening and Diagnostic Special Plate (2513)	6,000	521,000	521,000
Disease Control Research (2090)	2,006,900	3,055,200	3,055,200
Donations - DHS (3010/2025)	171,800	307,200	307,200
Donations - Statewide (2025)	5,400	0	0
Federal (2000)	258,011,600	252,079,500	252,264,100
Health Services Lottery (4250)	9,399,000	12,306,500	7,702,500
IGA and ISA (4500)	15,933,900	16,163,800	16,192,500
Interagency Service Agreement for Behavioral Health Services (4502)	0	0	0
Internal Services (4202)	0	0	0
Laser Safety (AEA2388)	0	0	48,500
Medical Marijuana (2544)	11,654,800	16,926,100	16,926,100
Medical Student Loan (3306)	108,700	80,000	80,000
Oral Health (3038)	371,100	357,200	357,200
Public Health Emergencies (2775)	0	500,000	0
Risk Assessment (2427)	47,600	60,000	60,000
Smoke-Free Arizona (2541)	2,621,000	3,000,000	3,000,000
Tobacco Tax and Health Care - Health Education Account (1308)	20,109,000	23,600,000	23,600,000
Tobacco Tax and Health Care - Health Research Account (2096)	3,890,900	9,078,000	9,078,000
Tobacco Tax and Health Care - Medically Needy Account (1306)	0	0	0
Total - Department of Health Services	\$324,337,700	\$338,034,500	\$333,192,300
Arizona Historical Society (HIA)			
Exposition Museum Centennial, Arizona (2650)	\$305,400	\$0	\$0
Federal Grants (2000)	0	0	0
Permanent Arizona Historical Society Revolving (2900)	685,800	547,300	544,800
Preservation and Restoration (2125)	29,600	21,300	28,900
Private (9447)	531,400	558,300	506,100
Trust (9450)	37,700	12,400	0
Total - Arizona Historical Society	\$1,589,900	\$1,139,300	\$1,079,800
Prescott Historical Society of Arizona (PHA)			
Sharlot Hall Historical Society (9505)	\$593,600	\$1,115,000	\$2,860,000
Department of Homeland Security (HLA)			
Federal (2000)	\$22,430,300	\$20,188,200	\$20,188,200
Arizona Department of Housing (HDA)			
Consumer Recovery (3090)	\$5,200	\$5,200	\$5,200
DPS-FBI Fingerprint (2159)	5,300	5,300	5,300
Federal (2000)	78,704,400	82,989,900	88,432,900
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Housing Program (2200)	4,925,000	9,033,100	8,571,000
Housing Trust (2235)	8,776,400	13,441,100	13,441,100
IGA and ISA (2500)	14,961,700	2,965,100	2,965,100
Manufactured Housing Cash Bond (3722)	0	0	0
Mobile Home Relocation (2237)	426,200	392,300	392,300
Total - Arizona Department of Housing	\$107,804,200	\$108,832,000	\$113,812,900
Industrial Commission of Arizona (ICA)			
Federal Grants (2000)	\$2,877,400	\$3,179,900	\$3,179,900
Revolving (2002)	145,500	145,000	145,000
Special (2180)	15,388,300	17,703,900	17,703,900
Total - Industrial Commission of Arizona	\$18,411,200	\$21,028,800	\$21,028,800
Department of Insurance (IDA)			
Assessment Fund for Voluntary Plans (2316)	\$0	\$0	\$0
Captive Insurance Regulatory/Supervision (2377)	270,100	260,900	392,700
Federal (2000)	208,600	223,300	92,400
Financial Surveillance (2473)	398,400	468,700	468,700
Health Care Appeals (2467)	335,000	324,700	324,700
IGA and ISA (2500)	3,300	0	0
Insurance Examiners' Revolving (2034)	3,609,700	4,530,500	4,530,500
Life and Disability Insurance Guaranty (2154)	3,518,800	14,348,600	14,348,600
Property and Casualty Insurance Guaranty, Arizona (2114)	12,133,100	12,216,500	12,216,500
Receivership Liquidation (3104)	34,200	121,500	121,500
Total - Department of Insurance	\$20,511,200	\$32,494,700	\$32,495,600

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Judiciary - Supreme Court (SPA)			
Alternative Dispute Resolution (3245)	\$221,600	\$252,300	\$252,300
Certified Reporters (2440)	102,700	106,200	106,200
Drug Treatment and Education (2277)	369,700	386,000	386,000
Grants and Special Revenue (2084)	17,511,600	21,295,500	21,295,500
Juvenile Probation Services (2193)	0	0	0
Lengthy Trial, Arizona (2382)	485,100	626,000	626,000
Public Defender Training (3013)	557,600	617,100	617,100
Total - Judiciary - Supreme Court	\$19,248,300	\$23,283,100	\$23,283,100
Judiciary - Superior Court (SPA)			
Community Punishment Program Fines (2119)	\$14,100	\$117,500	\$117,500
Criminal Justice Enhancement (2075)	0	0	0
Drug and Gang Enforcement Account (2074)	1,049,900	1,058,200	1,058,200
Drug Treatment and Education (2277)	3,994,700	4,025,500	4,025,500
Grants and Special Revenue (2084)	0	0	0
Juvenile Probation Services (2193)	0	0	0
Total - Judiciary - Superior Court	\$5,058,700	\$5,201,200	\$5,201,200
Department of Juvenile Corrections (DJA)			
DJC Restitution (2476)	\$0	\$0	\$0
Employee Recognition (2449)	3,200	3,200	3,200
Federal (2000)	698,800	659,100	659,100
Indirect Cost Recovery (9000)	0	282,000	282,000
Juvenile Corrections (3024)	22,700	17,100	17,100
State Education System for Committed Youth Classroom Site (2487)	168,800	208,800	208,800
Statewide Donations (2025)	2,000	2,000	2,000
Total - Department of Juvenile Corrections	\$895,500	\$1,172,200	\$1,172,200
State Land Department (LDA)			
CAP Municipal and Industrial Repayment (2129)	\$0	\$0	\$0
Federal (2000)	0	0	0
Federal Reclamation Trust (2024)	0	0	0
Interagency Agreements (2212)	0	0	0
IGA and ISA (2500)	0	0	0
Off-Highway Vehicle Recreation (2253)	242,300	250,000	250,000
Resource Analysis Division Revolving (4009)	39,700	42,000	42,000
Riparian Acquisition Trust (3201)	0	0	0
State Land Department (2451)	341,000	370,000	370,000
Statewide Employee Recognition Gifts/Donations (2449)	700	1,000	1,000
Total - State Land Department	\$623,700	\$663,000	\$663,000
Legislature - Auditor General (AUA)			
Audit Services Revolving (2242)	\$2,499,100	\$2,040,200	\$2,040,200
Department of Liquor Licenses and Control (LLA)			
Anti-Racketeering Revolving (2131)	\$10,800	\$11,400	\$11,400
Audit Surcharge (3010)	180,200	179,600	179,600
Direct Shipment License Issuance (3017)	0	0	0
Direct Shipment License Renewal (3018)	0	0	0
DPS - FBI Fingerprint (2159)	0	0	0
Enforcement Surcharge - Enforcement Unit (3012)	365,900	366,800	366,800
Enforcement Surcharge - Multiple Complaints (3011)	413,300	412,400	412,400
Federal Grants (2000)	292,200	279,300	279,300
IGA and ISA (2500)	900	13,400	13,400
Total - Department of Liquor Licenses and Control	\$1,263,300	\$1,262,900	\$1,262,900
Arizona State Lottery Commission (LOA)			
State Lottery (2122)	\$559,491,400	\$584,638,500	\$614,996,800
Debt Service (NA)	37,501,500	37,500,800	37,502,900
University Capital Improvement (NA)	39,927,000	39,915,800	39,907,400
Mass Transit (NA)	11,502,000	11,529,000	11,529,000
Total - Arizona State Lottery Commission	\$648,421,900	\$673,584,100	\$703,936,100
Arizona Medical Board (MEA)			
Statewide Donations (2025)	\$0	\$10,000	\$0
State Mine Inspector (MIA)			
Abandoned Mines Safety (2408)	\$6,300	\$4,400	\$4,400
Federal Education and Training (2400)	35,500	33,100	33,100
Federal Grants (2000)	672,300	388,900	388,900
Total - State Mine Inspector	\$714,100	\$426,400	\$426,400

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Navigable Stream Adjudication Commission, Arizona (NSA)			
IGA and ISA (2500)	\$0	\$0	\$0
State Board of Nursing (BNA)			
Nurse Aide Training and Registration (2000)	\$414,700	\$518,600	\$518,600
Statewide Donations (2025)	0	0	0
Total - State Board of Nursing	<u>\$414,700</u>	<u>\$518,600</u>	<u>\$518,600</u>
Arizona Parents Commission on Drug Education and Prevention (PCA)			
Drug Treatment and Education (2277)	\$3,946,100	\$5,207,800	\$5,207,800
Arizona State Parks Board (PRA)			
Arizona Trail (2525)	\$72,500	\$41,800	\$41,800
Federal (2000)	4,322,900	4,827,100	4,827,100
Land Conservation - Administration Account (2432)	0	250,000	0
Land Conservation - Donation Account (2432)	0	0	0
Land Conservation - Public Conservation Account (2432)	0	0	0
Off Highway Vehicle Recreation (2253)	1,837,000	3,027,500	3,027,500
Partnership (2448)	551,300	2,696,800	2,696,800
State Lake Improvement (2105)	8,382,800	8,322,300	8,322,300
State Parks (3117)	110,000	350,000	350,000
Sustainable State Parks and Roads (3125)	0	190,000	190,000
Yarnell Hill Memorial (3124)	0	0	0
Total - Arizona State Parks Board	<u>\$15,276,500</u>	<u>\$19,705,500</u>	<u>\$19,455,500</u>
Arizona State Board of Pharmacy (PMA)			
Controlled Substances Prescription Monitoring Program (2359)	\$1,132,500	\$1,263,500	\$1,263,500
Federal Grants (2000)	0	0	0
Total - Arizona State Board of Pharmacy	<u>\$1,132,500</u>	<u>\$1,263,500</u>	<u>\$1,263,500</u>
Arizona Pioneers' Home (PIA)			
Pioneers' Home (Cemetery Proceeds) (3144)	\$0	\$0	\$0
Pioneers' Home (Donations) (3143)	17,000	0	0
Statewide Employee Recognition Gifts (2449)	9,800	6,200	6,200
Total - Arizona Pioneers' Home	<u>\$26,800</u>	<u>\$6,200</u>	<u>\$6,200</u>
Commission for Postsecondary Education (PEA)			
Family College Savings Program Trust (3121)	\$642,900	\$819,300	\$819,300
Federal Grants (2000)	0	129,700	129,700
Postsecondary Education (2405)	85,700	94,400	94,400
Private Postsecondary Education Grant Program (2530)	0	0	0
Private Postsecondary Education Student Financial Assistance (2128)	0	0	0
Teacher Student Loan, Arizona Teacher (2358)	17,000	0	0
Teachers Incentive Program (2249)	0	0	0
Total - Commission for Postsecondary Education	<u>\$745,600</u>	<u>\$1,043,400</u>	<u>\$1,043,400</u>
Arizona Power Authority (PAA)			
Hoover Uprating (1113)	\$28,172,000	\$22,209,200	\$22,209,200
Interest Income (1112)	34,700	7,000	7,000
Power Authority, Arizona (9506)	6,102,200	3,268,800	3,268,800
Total - Arizona Power Authority	<u>\$34,308,900</u>	<u>\$25,485,000</u>	<u>\$25,485,000</u>
State Board for Private Postsecondary Education (PVA)			
Student Tuition Recovery (3027)	\$420,500	\$304,500	\$304,500
Department of Public Safety (PSA)			
Anti-Racketeering Revolving (3123)	\$5,808,900	\$5,101,600	\$1,416,400
Capitol Police Administrative Towing (1999)	54,000	20,000	20,000
Conferences, Workshops, and Other Education (2700)	24,100	24,100	24,100
Criminal Justice Enhancement (3702)	0	0	0
DPS Administration (2322)	1,890,500	1,475,800	1,475,800
DPS Licensing (2490)	1,041,300	1,056,400	1,056,400
Driving Under the Influence Abatement (2422)	1,250,400	1,250,800	1,250,800
Families of Fallen Police Officers Special Plate (2386)	266,300	270,100	270,100
Federal Grants and Reimbursements (2000)	47,100,900	77,079,200	63,247,700
Fingerprint Clearance Card (2433)	4,817,700	5,933,500	5,933,500
Fingerprinting, Board of (2435)	591,600	623,600	623,600
IGA and ISA (2500)	9,287,900	10,676,600	10,676,600
Indirect Cost Recovery (9000)	579,000	425,900	425,900
Motor Carrier Safety Revolving (2380)	2,000	2,100	2,100
Peace Officers' Training (2049)	5,454,100	5,512,300	5,512,300

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Public Safety Equipment (2391)	0	0	0
Records Processing (2278)	4,970,100	5,361,200	5,361,200
State Highway Work Zone Safety (2480)	35,500	120,000	120,000
Statewide Donations (2025)	0	0	0
Victims' Rights Enforcement (2519)	896,300	1,000,000	1,000,000
Total - Department of Public Safety	\$84,070,600	\$115,933,200	\$98,416,500
Public Safety Personnel Retirement System (NA)			
Disability Program Trust (NA)	\$0	\$0	\$0
Fire Fighter, Peace Officer, and Corrections Officer Cancer Insurance Policy Program Account (NA)	33,100	36,600	40,700
Investment and Administrative Expenses (NA)	12,424,500	13,739,500	15,286,900
Retiree Pool Account (NA)	0	0	0
Total - Public Safety Personnel Retirement System	\$12,457,600	\$13,776,100	\$15,327,600
Radiation Regulatory Agency (AEA)			
Federal Grants (2000)	\$260,600	\$184,600	\$0
Laser Safety (2388)	48,600	48,500	0
Nuclear Emergency Management (2138)	0	0	0
Total - Radiation Regulatory Agency	\$309,200	\$233,100 2/	\$0
State Real Estate Department (REA)			
Condominium and Planned Community Hearing Office (2537)	\$17,000	\$17,000	\$17,000
Education Revolving (4011)	4,300	12,000	12,000
Recovery (3119)	139,600	309,500	309,500
Total - State Real Estate Department	\$160,900	\$338,500	\$338,500
Arizona State Retirement System (RSA)			
Administrative Account - Investment Expenses (1407)	\$15,098,500	\$16,003,000	\$15,961,900
Long-Term Disability Trust Fund Administration Account (1408)	0	0	0
Total - Arizona State Retirement System	\$15,098,500	\$16,003,000	\$15,961,900
Department of Revenue (RVA)			
Escheated Estates (3745)	\$0	\$0	\$0
Estate and Unclaimed Property (1520)	0	0	0
I Didn't Pay Enough (6001)	0	0	0
IGA and ISA (2500)	1,151,500	986,000	986,000
Revenue Publications Revolving (2166)	15,500	10,300	10,300
Special Collections (2168)	0	0	0
Statewide Employee Recognition Gifts/Donations (2449)	900	2,000	2,000
Veterans' Income Tax Settlement (1601)	0	0	0
Waste Tire (2356)	0	0	0
Total - Department of Revenue	\$1,167,900	\$998,300	\$998,300
School Facilities Board (SFA)			
Building Renewal Grant (2392)	\$0	\$0	\$0
Emergency Deficiencies Correction (2484)	262,700	901,100	0
Land Trust Bond Debt Service (5030)	26,449,500	47,986,900	0
Lease-to-Own Debt Service (2373)	0	0	0
New School Facilities (2460)	0	0	0
Public School Credit Enhancement, Arizona (9999)	0	0	0
School Improvement Revenue Bond Debt Service (5020)	64,165,400	64,151,500	64,121,400
Total - School Facilities Board	\$90,877,600	\$113,039,500	\$64,121,400
Secretary of State - Department of State (STA)			
Address Confidentiality Program (2557)	\$260,400	\$345,500	\$345,500
Blue Book Revolving, Arizona (2006)	0	0	0
Data Processing Acquisition (2265)	155,200	75,000	75,000
Election Training (2521)	300	6,500	6,500
Federal Grants (LAA2000)	3,019,600	3,368,600	3,368,600
IGA and ISA (2500)	0	0	0
Museum Gift Shop Revolving (LAA4008)	119,500	105,000	105,000
Notary Bond (2387)	112,100	101,800	101,800
Standing Political Committee Administrative (2426)	0	0	0
State Library (LAA2115)	196,500	237,100	237,100
Total - Secretary of State - Department of State	\$3,863,600	\$4,239,500	\$4,239,500
State Board of Technical Registration (TEA)			
Technical Registration Board of Investigations (2072)	\$293,300	\$33,400	\$33,400
Office of Tourism (TOA)			
Tourism (2236)	\$14,120,700	\$14,650,600	\$14,650,600
Department of Transportation (DTA)			
Abandoned Vehicle Administration (2150)	\$0	\$916,700	\$1,000,000

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Highways Magazine, Arizona (2031)	4,453,000	4,589,800	4,589,800
Cash Deposits (2266)	0	0	0
Contract Counsel (4212)	0	0	0
Federal Grants (2097)	1,995,000	1,995,000	1,995,000
Highway Expansion and Extension Loan Program (2417)	0	0	0
IGA and ISA (2500)	171,700	240,000	240,000
International Development Authority, Arizona (1994)	0	0	0
Local Agency Deposits (3701)	5,459,300	5,459,300	5,459,300
Maricopa Regional Area Road (2029)	42,102,000	42,102,000	42,102,000
Motor Carrier Safety Revolving (2380)	36,600	27,000	6,000
Rental Tax and Bond Deposit (3737)	0	0	0
Shared Location and Advertising Agreements Expense (2414)	4,000	10,000	30,000
Statewide Employee Recognition Gifts/Donations (2449)	6,300	13,000	13,000
Statewide Special Plates (2650)	2,038,800	2,597,000	2,814,000
Underground Storage Tank Revolving (3728)	0	0	0
Total - Department of Transportation	\$56,266,700	\$57,949,800	\$58,249,100
State Treasurer (TRA)			
Criminal Justice Enhancement (3702)	\$4,005,400	\$4,005,400	\$4,005,400
Fallen Firefighter Memorial, Arizona (3033)	0	0	0
Public Deposit Administration (2574)	0	82,900	82,900
Public School Credit Enhancement, Arizona (2675)	0	0	0
Total - State Treasurer	\$4,005,400	\$4,088,300	\$4,088,300
Governor's Office on Tribal Relations (IAA)			
Indian Town Hall, Arizona (4014)	\$500	\$0	\$0
Publications (4013)	0	0	0
Statewide Donations (2025)	33,500	22,900	22,900
Total - Governor's Office on Tribal Relations	\$34,000	\$22,900	\$22,900
Arizona Board of Regents (BRA)			
Health Education Center Program, Arizona (BRA2)	\$0	\$0	\$0
Federal (2000)	857,200	360,200	0
Regents Local (BRA1)	3,898,000	4,561,300	4,527,900
Technology and Research Initiative (2472)	3,434,900	3,606,100	2,000,000
Trust Land (3131/3132/3134/3136)	0	0	0
Total - Arizona Board of Regents	\$8,190,100	\$8,527,600	\$6,527,900
Arizona State University (ASA)			
Auxiliary (UNI8906)	\$195,054,300	\$187,066,800	\$187,066,800
Capital Infrastructure (UNI3001)	0	0	0
Designated (UNI8905)	914,677,200	1,134,044,200	1,156,668,900
Endowment and Life Income (UNI8904)	1,655,700	700,000	700,000
Federal Grants (UNI8903)	353,810,600	351,670,800	351,670,800
Federal Indirect Cost Recovery (UNI8902)	58,526,000	60,633,000	60,633,000
Indirect Cost Recovery (Non-Federal) (UNI8900)	8,825,900	10,804,600	10,804,600
Loan (UNI8901)	637,800	0	0
Restricted (Excluding Federal Funds) (UNI8907)	150,400,800	205,827,300	205,827,300
University Capital Improvement Lease-to-Own and Bond (BRA3042)	11,925,800	11,926,700	11,918,400
Total - Arizona State University	\$1,695,514,100	\$1,962,673,200	\$1,985,289,800
Northern Arizona University (NAA)			
Auxiliary (UNI8906)	\$81,925,500	\$97,382,300	\$100,650,000
Capital Infrastructure (UNI3002)	0	0	\$0
Designated (UNI8905)	164,879,500	195,180,300	199,113,500
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	83,363,700	84,807,100	86,289,200
Federal Indirect Cost Recovery (UNI8902)	7,517,500	7,760,700	8,013,200
Indirect Cost Recovery (Non-Federal) (UNI8900)	2,629,300	2,188,000	2,062,100
Loan (UNI8901)	174,900	185,000	195,000
Restricted (Excluding Federal Funds) (UNI8907)	24,973,600	25,468,600	25,989,000
University Capital Improvement Lease-to-Own and Bond (BRA3042)	11,082,500	11,077,200	11,079,600
Total - Northern Arizona University	\$376,546,500	\$424,049,200	\$433,391,600
University of Arizona - Main Campus (UAA)			
Auxiliary (UNI8906)	\$288,057,900	\$281,549,100	\$291,403,200
Capital Infrastructure (UNI3003)	\$0	\$0	\$0
Designated (UNI8905)	531,117,400	583,151,500	603,572,200
Endowment and Life Income (UNI8904)	1,797,400	1,851,400	1,916,200
Federal Grants (UNI8903)	165,713,300	170,426,700	176,437,000

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Federal Indirect Cost Recovery (UNI8902)	45,699,500	47,070,400	48,717,900
Geological Survey (UNI3030)	684,800	337,000	337,000
Geological Survey Federal Grants (UNI3031)	1,006,600	1,294,300	1,294,300
Geological Survey - Mining, Mineral and Natural Resources Educational Museum Account (UNI9999)	90,800	39,900	39,900
Indirect Cost Recovery (Non-Federal) (UNI8900)	11,110,300	11,443,600	11,844,100
Loan (UNI8901)	219,100	225,700	233,600
Restricted (Excluding Federal Funds) (UNI8907)	171,024,700	176,179,700	182,348,800
University Capital Improvement Lease-to-Own and Bond (BRA3042)	26,900,400	26,890,800	26,886,200
Total - University of Arizona - Main Campus	<u>\$1,243,422,200</u>	<u>\$1,300,460,100</u>	<u>\$1,345,030,400</u>
University of Arizona - Health Sciences Center (UAA)			
Auxiliary (UNI8906)	\$8,902,500	\$10,290,100	\$10,650,300
Designated (UNI8905)	285,698,900	292,603,900	302,844,900
Endowment and Life Income (UNI8904)	21,000,000	21,630,000	22,387,100
Federal Grants (UNI8903)	75,612,000	77,880,200	80,605,900
Federal Indirect Cost Recovery (UNI8902)	26,075,900	26,858,100	27,798,200
Indirect Cost Recovery (Non-Federal) (UNI8900)	4,293,300	4,422,100	4,576,900
Restricted (Excluding Federal Funds) (UNI8907)	73,192,800	75,328,100	77,964,900
Total - University of Arizona - Health Sciences Center	<u>\$494,775,400</u>	<u>\$509,012,500</u>	<u>\$526,828,200</u>
Department of Veterans' Services (VSA)			
Federal (2000)	\$1,541,900	\$2,159,300	\$2,159,300
Military Family Relief (2339)	881,300	1,017,900	1,017,900
Post-9/11 Veteran Education Relief (2645)	0	0	0
Statewide Employee Recognition Gifts (2449)	1,200	2,000	2,000
Veterans' Cemetery (2481)	231,500	367,300	0
Arizona State Veterans' Cemetery Trust (2499)	247,500	267,300	267,300
Veterans' Donations (2441)	2,219,600	2,151,300	2,151,300
Veterans' Income Tax Settlement (1601)	0	97,600	97,600
Total - Department of Veterans' Services	<u>\$5,123,000</u>	<u>\$6,062,700</u>	<u>\$5,695,400</u>
Department of Water Resources (WCA)			
Administrative (3025)	\$0	\$0	\$0
Augmentation and Conservation Assistance (2213)	694,300	920,000	920,000
Colorado River Water Use Fee Clearing Account (2538)	18,000	7,000	7,000
Dam Repair (2218)	500	1,502,000	1,502,000
Federal Grants (2000)	312,500	253,100	253,100
Flood Warning System (1021)	1,400	42,000	42,000
General Adjudications (2191)	12,200	24,000	24,000
Indirect Cost Recovery (9000)	92,600	95,600	95,600
Interagency Service Agreement (2500)	189,600	230,000	230,000
Production and Copying (2411)	10,600	4,000	4,000
Publication and Mailing (2410)	2,100	2,000	2,000
Purchase and Retirement (2474)	0	100	100
Statewide Donations (2025)	5,500	280,400	280,400
Water Banking, Arizona (2110)	18,278,100	4,341,500	4,341,500
Water Protection, Arizona (1302)	506,800	576,500	576,500
Water Quality, Arizona (2304)	104,900	134,800	134,800
Well Administration and Enforcement (2491)	70,900	69,900	69,900
Total - Department of Water Resources	<u>\$20,300,000</u>	<u>\$8,482,900</u>	<u>\$8,482,900</u>
OPERATING TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$21,808,074,800	\$23,612,771,000	\$24,432,750,200
Subtotal - Other Funds	8,191,144,100	8,844,741,000	9,039,320,900
Subtotal - Federal Funds	13,616,930,700	14,768,030,000	15,393,429,300
OPERATING TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	<u>\$21,808,074,800</u>	<u>\$23,612,771,000</u>	<u>\$24,432,750,200</u>
CAPITAL - NON-APPROPRIATED			
Aviation Federal Funds (DTA2267)	\$4,090,000	\$1,755,000	\$906,000
Federal Grants (DTA2097)	789,477,000	939,684,000	913,368,000
Economic Strength Project (DTA2244)	1,000,000	1,000,000	1,000,000
Highway Expansion and Extension Loan Program (DTA2417)	0	0	0
Local Agency Deposits (DTA3701)	14,470,000	10,000,000	10,000,000
Maricopa Regional Area Road (DTA2029)	251,000,000	447,302,000	426,420,000

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
State Parks Board - State Lake Improvement (2105)	958,900	8,301,400	0
Department of Public Safety Federal Funds (PSA2000)	0	0	0
CAPITAL TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$1,060,995,900	\$1,408,042,400	\$1,351,694,000
Subtotal - Other Funds	267,428,900	466,603,400	437,420,000
Subtotal - Federal Funds	793,567,000	941,439,000	914,274,000
CAPITAL TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$1,060,995,900	\$1,408,042,400	\$1,351,694,000
GRAND TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$22,869,070,700	\$25,020,813,400	\$25,784,444,200
Subtotal - Other Funds	8,458,573,000	9,311,344,400	9,476,740,900
Subtotal - Federal Funds	14,410,497,700	15,709,469,000	16,307,703,300
GRAND TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$22,869,070,700	\$25,020,813,400	\$25,784,444,200

- 1/ If General Fund monies are deposited into a non-appropriated fund, the expenditures of these monies are not displayed in this chart to avoid double counting.
- 2/ Laws 2017, Chapter 313 transfers the Arizona Radiation Regulatory Agency (ARRA) to the Department of Health Services (DHS), effective January 1, 2018. While the FY 2018 General Appropriation Act appropriated a separate budget for the ARRA, Chapter 313 states that all duties and unexpended or unencumbered monies of ARRA are transferred to DHS on the effective date. ARRA funds are displayed in ARRA in FY 2018.

NA = No Fund Number

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 Fund	Other Fund	Total	General Fund	Other Fund	Total
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	417.9	535.1	114.2	417.9	535.1
Automation Projects Fund	0.0	15.0	15.0	0.0	15.0	15.0
Capital Outlay	0.0	5.0	5.0	0.0	5.0	5.0
SUBTOTAL - Administration, Arizona Department of	114.2	437.9	555.1	114.2	437.9	555.1
Administrative Hearings, Office of	12.0	0.0	12.0	12.0	0.0	12.0
African-American Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Agriculture, Arizona Department of <u>2/</u>	187.1	17.2	204.3	187.1	17.2	204.3
AHCCCS	455.6	685.6	1,141.2	455.6	685.6	1,141.2
AHCCCS - DES Eligibility	564.2	620.9	1,185.1	564.2	620.9	1,185.1
SUBTOTAL - AHCCCS <u>3/ 4/</u>	1,019.8	1,306.5	2,326.3	1,019.8	1,306.5	2,326.3
Athletic Training, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Attorney General - Department of Law	218.6	362.1	580.7	218.6	362.1	580.7
Automobile Theft Authority	0.0	6.0	6.0	0.0	6.0	6.0
Barbers, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Behavioral Health Examiners, Board of	0.0	17.0	17.0	0.0	17.0	17.0
Charter Schools, State Board for	14.0	0.0	14.0	14.0	0.0	14.0
Child Safety, Department of <u>4/ 5/</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	6.0	9,541.0
Cosmetology, Board of	0.0	24.5	24.5	0.0	24.5	24.5
Criminal Justice Commission, Arizona	0.0	9.0	9.0	0.0	9.0	9.0
Deaf and the Blind, Arizona State Schools for the	263.8	277.4	541.2	263.8	277.4	541.2
Deaf and the Hard of Hearing, Commission for the	0.0	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/ 6/</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	123.5	48.4	171.9
Emergency and Military Affairs, Department of <u>2/7/</u>	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	4.0	0.0	4.0
Equalization, State Board of	7.0	0.0	7.0	7.0	0.0	7.0
Executive Clemency, Board of	14.0	0.0	14.0	14.0	0.0	14.0
Exposition and State Fair Board, Arizona	0.0	184.0	184.0	0.0	184.0	184.0
Financial Institutions, State Department of	46.1	23.0	69.1	46.1	23.0	69.1
Forestry and Fire Management, Arizona Department of	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 <u>2/</u>	795.9	269.6	1,065.5	811.9	288.1	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	190.8	0.0	190.8

BUDGET UNITS	Fiscal Year 2018			Fiscal Year 2019		
	General Fund	Other Fund	Total	General Fund	Other Fund	Total
Joint Legislative Budget Committee	29.0	0.0	29.0	29.0	0.0	29.0
Legislative Council	49.0	0.0	49.0	52.0	0.0	52.0
SUBTOTAL - Legislature	266.8	0.0	266.8	271.8	0.0	271.8
Liquor Licenses and Control, Department of	0.0	45.2	45.2	0.0	45.2	45.2
Lottery Commission, Arizona State	0.0	98.8	98.8	0.0	98.8	98.8
Massage Therapy, Board of	0.0	5.0	5.0	0.0	5.0	5.0
Medical Board, Arizona	0.0	61.5	61.5	0.0	61.5	61.5
Mine Inspector, State	14.0	0.0	14.0	14.0	0.0	14.0
Naturopathic Physicians Medical Board	0.0	2.0	2.0	0.0	2.0	2.0
Navigable Stream Adjudication Commission, Arizona	2.0	0.0	2.0	2.0	0.0	2.0
Nursing, State Board of	0.0	42.2	42.2	0.0	42.2	42.2
Nursing Care Institution of Administrators, Bd	0.0	6.0	6.0	0.0	6.0	6.0
Occupational Therapy Examiners, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Opticians, State Board of Dispensing	0.0	1.0	1.0	0.0	1.0	1.0
Optometry, State Board of	0.0	2.0	2.0	0.0	2.0	2.0
Osteopathic Examiners, Arizona Board of	0.0	7.2	7.2	0.0	7.2	7.2
Parks Board, Arizona State	0.0	163.0	163.0	0.0	163.0	163.0
Personnel Board, State	0.0	3.0	3.0	0.0	3.0	3.0
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	1,250.0	1,945.7
Radiation Regulatory Agency <u>2/</u>	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 <u>4/</u>	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	1.0	4,551.0	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 <u>8/9/</u>			0.0			
Regents, Arizona Board of	25.9	0.0	25.9	25.9	0.0	25.9
Arizona State University <u>10/</u>	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	380.0	496.3
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	28,520.8	53,148.8	24,569.6	28,577.6	53,150.2

- 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/ Laws 2017, Chapter 43 appropriated 5.5 Other Fund FTE Positions in the Department of Emergency and Military Affairs, 5.5 Other Fund FTE Positions in the Radiation Regulatory Agency (now in the Department of Health Services), and 2.88 Other Fund FTE Positions in the Department of Agriculture for FY 2018 and FY 2019. Laws 2017, Chapter 313 transfers all of the Radiation Regulatory Agency's FTE Positions to the Department of Health Services, as of January 1, 2018. The Baseline displays this transfer occurring in FY 2019.
- 3/ Includes 1,257.1 FTE Positions in FY 2018 and FY 2019 in the Other Fund FTE Positions columns funded from Federal Medicaid Expenditure Authority.
- 4/ The FY 2018 FTE allocations have been rebased to match FY 2019 allocations.
- 5/ Includes 1,039.1 FTE Positions in FY 2018 and FY 2019 in the Other Fund FTE Positions columns funded from Expenditure Authority.

- 6/ 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 and Federal Funds for Child Support Enforcement.
- 7/ Includes 1 General Fund FTE Position in the Department of Emergency and Military Affairs for the administration of the Military Installation Fund per A.R.S. § 26-263.
- 8/ The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) originally appropriated 17,265.2 FTE Positions to the universities for FY 2018. This FTE amount has been revised to 17,706.3 to account for increased tuition and fee collections that exceeded what was originally included in the FY 2018 budget.
- 9/ The Other Fund FTE Positions are funded by the University Collections Fund, which includes a portion of tuition and fees and a portion of land earnings.
- 10/ 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. As a result, the FTE Positions for ASU that were originally differentiated by campus have been consolidated into a single budget unit and displayed as such here for FY 2018 and FY 2019.

FY 2019 BUDGET RECONCILIATION BILL PROVISIONS

The Baseline includes the enactment of statutory changes associated with its funding amount. The following provisions would be grouped by subject into Budget Reconciliation Bills (BRBs). New provisions in the Baseline are noted with an asterisk (*).

Statewide

1. As session law, continue to notwithstanding A.R.S. § 35-111 to require the Governor to submit an annual budget for FY 2020.
2. As session law, continue to notwithstanding A.R.S. § 35-113 to require the head of each department to submit an annual budget for FY 2020.
3. As session law, continue to notwithstanding A.R.S. § 35-121 to permit annual appropriations for all agencies for FY 2021. (Laws 2017, Chapter 307 permitted annual appropriations for all agencies through FY 2020.)
4. As session law, continue to set the FY 2019 Capital Outlay Stabilization Fund (COSF) rental rate charged by the Arizona Department of Administration (ADOA) at \$13.08/square foot for rentable office space and \$4.74/square foot for rentable storage space.
5. As session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.

Arizona Department of Agriculture

6. As session law, continue fee raising 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.

AHCCCS

Rates and Services

7. 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.

Counties

8. As session law, set the FY 2019 county Arizona Long Term Care System (ALTCS) contributions at \$267,772,200.
9. 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.
10. As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.
11. As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
12. 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.

Hospitals

13. 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.
14. 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.

Erroneous Payments

15. 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.

Available Funding

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

Reports

17. As session law, continue 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.
18. 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.

Attorney General

19. * 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.
20. * 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.

Department of Child Safety

21. 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.

Arizona Community Colleges

22. As session law, continue to suspend the Operating State Aid funding formula in FY 2019 for Maricopa and Pima Counties.
23. 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.

State Department of Corrections

24. 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.

Counties and Cities & Towns

25. 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.

Department of Economic Security

26. As session law, continue to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.
27. As session law, continue to permit DES to reduce income eligibility levels for all child care programs. Require DES to report to the JLBC within 15 days of any change in levels.

Department of Education

JTEDs

28. As session law, continue to fund state aid for Joint Technical Education Districts (JTEDs) with more than 2,000 Average Daily Membership (ADM) students at 95.5% of the formula requirement and reduce budget limits accordingly.

Formula Requirements

29. 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 1.77% for standard inflation.

Funding Formula Changes

30. As session law, continue to reduce school districts' Additional Assistance state aid by \$352,442,700 and reduce budget limits accordingly. As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2019 by the amount that would be reduced if they did qualify for state aid for FY 2019 and reduce budget limits accordingly.

31. As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
32. As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.

Other

33. As session law, continue to stipulate that \$100,000 of the \$3,646,500 School Safety Program appropriation for FY 2019 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.
34. As session law, continue to require the department to report to the Governor, President of the Senate and Speaker of the House of Representatives results of the pilot program on school emergency readiness by November 1 of the fiscal year.
35. 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.

Department of Environmental Quality

36. 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.
37. 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, continue to set the General Fund appropriation at \$2,823,600 and appropriate \$1,400,000 from the Vehicle Emissions Inspection Fund, \$2,100,000 from the Air Quality Fund, and \$676,400 from the Recycling Fund to WQARF, for a total of \$7,000,000.
38. 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.)
39. As session law, continue to allow Water Quality Fee Fund monies to be used to fund the Water Quality Monitoring Program in FY 2019.

Department of Financial Institutions

40. As session law, continue to allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department.
41. As session law, allow the appropriation of \$850,000 from the Receivership Fund to develop and implement the department's new licensing system to be non-lapsing through June 30, 2019.

Department of Gaming

42. As session law, continue to set the Racing Wagering Assessment at 0.5% in FY 2019 only.

Department of Health Services

43. As session law, continue to require all counties to pay 31% of their total Sexually Violent Persons (SVP) costs throughout the entire commitment process, including pre-adjudication proceedings, in FY 2019.
44. 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.
45. 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.
46. 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 DES domestic violence prevention programs.
47. As session law, continue fee raising authority and an exemption relating to establishing fees for the Radiation Regulatory Division in FY 2019 and continue an intent clause that limits additional revenues to \$561,000.

Department of Insurance

48. As session law, continue to suspend the requirement that fees collected by the department be between 95% and 110% of the department's appropriation.

Department of Juvenile Corrections

49. As session law, continue to state that it is the intent of the Legislature that each county pay an assessed amount determined by the county's proportional share by population of \$11,260,000.

Arizona Navigable Stream Adjudication Commission

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

Arizona State Parks Board

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

Department of Public Safety

52. As session law, continue to require the Department of Public Safety (DPS) to receive Joint Legislative Budget Committee (JLBC) review of the expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount FY 2019 appropriation prior to its expenditure.
53. As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF.
54. As session law, continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses.
55. As session law, continue to allow DPS to utilize \$137,700 from the FY 2019 GIITEM Subaccount appropriation for costs related to an increase in the PSPRS employer contribution rate.
56. As session law, continue to allocate \$400,000 from the GIITEM General Fund distribution to the Pima County Sheriff's Office.

Department of Revenue

57. 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).

Universities

58. 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).
59. * 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.

Department of Water Resources

60. 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.
61. 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.

Revenues

62. As session law, continue to notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund through FY 2021.

FY 2019 GENERAL APPROPRIATION ACT PROVISIONS

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.

Arizona Commerce Authority

63. 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.

Counties and Cities & Towns

64. 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.
65. 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.
66. 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.

Department of Education

67. 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 the Department of Education to make the rollover payment no later than July 12, 2019.
68. 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.

Industrial Commission

69. * 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.

Debt Service

70. 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.

Revenues

71. As session law, continue to specify revenue and expenditure estimates for FY 2018, FY 2019, FY 2020, and FY 2021.
72. 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.

Statewide

73. 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.
74. 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.
75. 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.
76. As session law, continue to require ADOA to report monthly to the JLBC Director on agency transfers of spending authority from one expenditure class to another or between programs.

General

77. As session law, continue to define "*" as designating an appropriation exempt from lapsing.
78. As session law, continue to define "expenditure authority" as continuously appropriated monies included in individual line items of appropriations.
79. 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.

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.

Arizona Department of Administration

- Modifies footnote requiring ADOA to report to the JLBC by August 1, 2018 on its vehicle replacement maintenance savings and eliminates the review requirement.
- 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.
- Adds footnote requiring ADOA to report to the Joint Committee on Capital Review for review before taking any action related to the demolition of 1275 W. Washington.
- Adds footnote requiring ADOA to report to the Joint Committee on Capital Review by August 15, 2018 for review of its plan for the relocation of state agencies and the renovation of Capitol Mall buildings.

Arizona Department of Administration - Automation Projects Fund

- 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.

Registrar of Contractors

- Deletes footnote requiring JLBC review of any transfer to or from the Office of Administrative Hearings Costs line item.

Corporation Commission

- 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).

Department of Economic Security

- 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.

Department of Education

- Adds footnotes stipulating that any monies received by the Department of Education for Proposition 301 purposes in excess of the budgeted amounts are available for expenditure.
- 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.
- Modifies footnote for Additional Teacher Salary Increase line item to have it apply also to the second year increase in FY 2019.

Arizona Medical Board

- 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.

Department of Public Safety

- 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.

Secretary of State

- Adds footnote limiting expenditures from the Primary and General Election Funding - County Pass Through line item to reimbursing counties for costs of state elections only, requiring monies in any other line item intended for county reimbursement to be transferred to the Primary and General Election Funding - County Pass Through line item and requiring prior JLBC review for any transfer into or out of the line item.

Department of Transportation

- Adds footnote requiring all expenditures for vehicle and heavy equipment replacement to be funded only from the Vehicle Replacement line item.

Universities

- 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.)
- 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.

INDIVIDUAL AGENCY ESTIMATES

Arizona State Board of Accountancy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	326,000
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	401,700
Equipment	32,100	15,800	15,800
AGENCY TOTAL	1,521,700	2,042,200	2,024,400
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Accountancy Fund	1,521,700	2,042,200	2,024,400
SUBTOTAL - Other Appropriated Funds	1,521,700	2,042,200	2,024,400
SUBTOTAL - Appropriated Funds	1,521,700	2,042,200	2,024,400
TOTAL - ALL SOURCES	1,521,700	2,042,200	2,024,400

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

Operating Budget

* * *

The Baseline includes \$2,024,400 and 14 FTE Positions from the Board of Accountancy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(17,800) from the Board of Accountancy Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Accountancy Fund (ABA2001/A.R.S. § 32-705)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of public accountants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate certified public accountants and public accountants, and for board administration.		
Funds Expended	1,521,700	2,042,200
Year-End Fund Balance	2,797,600	2,525,700

Acupuncture Board of Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	32,600
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	31,500
Equipment	300	0	0
OPERATING SUBTOTAL	145,900	172,300	162,300
SPECIAL LINE ITEMS			
Annual Leave Payout	13,200	13,200	0
AGENCY TOTAL	159,100	185,500	162,300

FUND SOURCES

Other Appropriated Funds

Acupuncture Board of Examiners Fund	159,100	185,500	162,300
SUBTOTAL - Other Appropriated Funds	159,100	185,500	162,300
SUBTOTAL - Appropriated Funds	159,100	185,500	162,300
TOTAL - ALL SOURCES	159,100	185,500	162,300

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 Baseline includes \$162,300 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 Baseline 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.

Annual Leave Payout

The Baseline 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:

Remove One-Time Funding

The Baseline 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.

* * *

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Acupuncture Board of Examiners Fund (ANA2412/A.R.S. § 32-3905)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of acupuncturists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate acupuncturists, and for board administration.		
Funds Expended	159,100	185,500
Year-End Fund Balance	171,100	102,200

Arizona Department of Administration

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	535.1	535.1	535.1
Personal Services	25,958,500	29,680,000	29,680,000
Employee Related Expenditures	8,929,800	11,240,300	10,659,200
Professional and Outside Services	6,996,700	14,169,400	14,169,400
Travel - In State	487,500	386,800	386,800
Travel - Out of State	44,100	96,100	96,100
Other Operating Expenditures	30,438,600	26,547,800	26,547,800
Equipment	4,006,100	9,826,000	9,826,000
OPERATING SUBTOTAL	76,861,300	91,946,400	91,365,300
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	6,140,600	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	9,296,400	9,457,500	9,406,300
Named Claimants	3,300	0	0
Information Technology Services			
Statewide Information Security and Privacy Office	872,600	874,300	870,900
Telecommunications Infrastructure	118,700	0	0
Risk Management			
Federal Transfer Payment	3,218,200	0	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	42,530,300
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
Other			
Southwest Defense Contracts	25,000	25,000	25,000
AGENCY TOTAL	179,514,900	197,883,300	195,860,900
FUND SOURCES			
General Fund	9,844,400	10,365,300	10,264,500
<u>Other Appropriated Funds</u>			
Administration - AFIS II Collections Fund	0	375,900	0
Air Quality Fund	499,600	927,300	927,300
Arizona Financial Information System Collections Fund	9,296,400	9,457,500	9,406,300
Automation Operations Fund	19,890,800	24,067,000	23,937,600
Capital Outlay Stabilization Fund	15,316,700	18,159,900	18,069,600
Corrections Fund	423,000	573,600	570,400
Federal Surplus Materials Revolving Fund	34,900	465,700	464,500
Information Technology Fund	2,910,100	2,948,900	2,936,000
Motor Vehicle Pool Revolving Fund	6,906,400	10,154,100	10,151,300
Personnel Division Fund	12,032,200	12,951,500	12,857,900
Risk Management Revolving Fund	89,598,800	90,951,400	90,875,000
Special Employee Health Insurance Trust Fund	4,884,800	5,302,000	5,256,100
Special Services Revolving Fund	412,800	812,300	809,900
State Surplus Materials Revolving Fund	2,645,300	2,960,600	2,947,000
State Web Portal Fund	3,433,200	5,551,600	4,542,400

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
Telecommunications Fund	1,385,500	1,858,700	1,845,100
SUBTOTAL - Other Appropriated Funds	169,670,500	187,518,000	185,596,400
SUBTOTAL - Appropriated Funds	179,514,900	197,883,300	195,860,900
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	1,359,851,100	1,408,234,000

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

Operating Budget

The Baseline includes \$91,365,300 and 504.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$8,613,800
Air Quality Fund	927,300
Automation Operations Fund	23,937,600
Capital Outlay Stabilization Fund (COSF)	10,419,700
Corrections Fund	570,400
Federal Surplus Materials Revolving Fund	464,500
Information Technology Fund	2,065,100
Motor Vehicle Pool Revolving Fund	10,151,300
Personnel Division Fund	12,857,900
Risk Management Revolving Fund	7,767,200
Special Employee Health Insurance Trust Fund	5,256,100
Special Services Revolving Fund	809,900
State Surplus Materials Revolving Fund	1,137,000
State Web Portal Fund	4,542,400
Telecommunications Fund	1,845,100

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(581,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(90,000)
Automation Operations Fund	(129,400)
Capital Outlay Stabilization Fund	(90,300)
Corrections Fund	(3,200)
Federal Surplus Materials Revolving Fund	(1,200)
Information Technology Fund	(9,500)
Motor Vehicle Pool Revolving Fund	(2,800)
Personnel Division Fund	(93,600)
Risk Management Revolving Fund	(76,400)
Special Employee Health Insurance Trust Fund	(45,900)

Special Services Revolving Fund	(2,400)
State Surplus Materials Revolving Fund	(13,600)
State Web Portal Fund	(9,200)
Telecommunications Fund	(13,600)

(Please see the Technical Budget Assumptions section.)

Facilities Management

Utilities

The Baseline includes \$8,275,600 in FY 2019 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2018.

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

Financial Services

Arizona Financial Information System

The Baseline includes \$9,406,300 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(51,200) from the Arizona Financial Information System Collections Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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

Named Claimants

The Baseline includes no funding in FY 2019 for Named Claimants. This amount is unchanged from FY 2018.

The state must annually settle legitimate 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 2017, Chapter 17 appropriated \$3,285 from the Risk Management Revolving Fund in FY 2017 to the department for prior year unpaid claims.

Information Technology Services

Statewide Information Security and Privacy Office

The Baseline includes \$870,900 and 3 FTE Positions from the Information Technology Fund in FY 2019 for the Statewide Information Security and Privacy Office (SISPO). FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(3,400) from the Information Technology Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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

Risk Management

Federal Transfer Payment

The Baseline includes no funding in FY 2019 for one-time payments to the federal government. This amount is unchanged from FY 2018.

Laws 2017, Chapter 305, Section 104 included an FY 2017 supplemental appropriation of \$3,218,200 from the Risk Management Revolving Fund for one-time payments to the federal government for disallowed costs and for fund transfers in FY 2016. In addition, the FY 2018 General Appropriation Act also specifies that it is the intent of the Legislature that ADOA shall not enter into any agreements to pay for any federal reimbursements related to excess retained earnings in HITF, unless the proposed agreements are reviewed by the JLBC.

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

Risk Management Administrative Expenses

The Baseline includes \$8,747,300 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 Baseline includes \$42,530,300 from the Risk Management Revolving Fund in FY 2019 for Risk Management Losses and Premiums. This amount is unchanged from FY 2018.

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

Workers' Compensation Losses and Premiums

The Baseline includes \$31,830,300 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 Baseline includes \$1,000,000 from the General Fund in FY 2019 for the Government Transformation Office (GTO). FY 2019 adjustments are as follows:

Remove One-time Resources

The Baseline includes a decrease of \$(1,000,000) from the State Web Portal Fund in FY 2019 for the removal of one-time funding for additional GTO resources.

The State Web Portal Fund is expected to have a cash balance of \$2,377,200 at the end of FY 2018 which would be sufficient to continue funding the GTO. However, Web Portal balances are also used to fund ADOA's Automation Project Fund projects.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(10,800) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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

Office of Grants and Federal Resources

The Baseline 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 Baseline 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.

The Arizona Financial Information System II Collections Fund is projected to have a balance of \$772,300 at the end of FY 2018. With the implementation of the state's new accounting system in FY 2016, the fund is no longer needed to operate the old AFIS II system.

State Surplus Property Sales Agency Proceeds

The Baseline 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

All State Surplus Materials Revolving Fund monies received by the Department of Administration in excess of \$2,947,000 in FY 2019 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,947,000 in FY 2019, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee.

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

The amounts appropriated for the State Employee Transportation Service Subsidy shall be used for up to a 50% subsidy of charges payable for public transportation service expenses as provided in A.R.S. § 41-710.01, of nonuniversity state employees in a vehicle emissions control area as defined in A.R.S. § 49-541, of a county with a population of more than 400,000 persons.

The appropriation from the Automation Operations Fund established by A.R.S. § 41-711 is an estimate representing all monies, including balance forward, revenues and transfers during FY 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 \$23,937,600 in FY 2019, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee.

It is the intent of the Legislature that the department not replace vehicles until they have an average of 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. *(The Baseline would eliminate the requirement for the report to be reviewed by the Committee.)*

Other Issues

This section includes information on the following topics:

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

FY 2018 Supplemental

The Baseline includes an FY 2018 supplemental appropriation of \$14,404,700 from the Risk Management Revolving Fund for one-time payments to the federal government for disallowed costs and fund transfers in FY 2017. *(Please see the Federal Financial Participation Repayment Other Issues section for additional 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.

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 Baseline removes the FY 2018 one-time employer premium increase which decreases HITF revenue in FY 2019 by approximately \$(76.4) million including \$(25.0) million from the General Fund. With these changes, HITF has a projected structural balance of \$(103.9) million in FY 2019 and an ending cash balance of \$32.9 million.

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>0.0</u>
Net Revenues	\$1,122.2	\$1,056.6	\$980.3
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	\$ 32.9

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, which is closer to historical spending levels. Under this adjusted estimate, the FY 2019 ending balance would be \$43.9 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 the Department of Child Safety litigation expenses.

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	48,866.5
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	149,824.0
Expenditures			
ADOA	86,380.6	90,951.4	125,167.0
Federal Repayment ^{1/}	<u>3,218.0</u>	<u>14,404.7</u>	<u>-</u>
ADOA Subtotal	89,598.6	105,356.1	125,167.0
Other Agencies			
DPS	1,228.1	1,314.2	1,314.2
DCS	2,867.6	2,471.2	0.0
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	10,782.8
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	125,268.3	135,949.8
Ending Balance	73,177.3	48,866.5	13,874.2
Spending Adjustment ^{2/}	-	-	(30,000.0)
Adjusted Expenditures	<u>106,903.7</u>	<u>125,268.3</u>	<u>105,949.8</u>
Revised Balance	73,177.3	48,866.5	43,874.25

^{1/} FY 2018 amount represents estimated payment not yet authorized by the Legislature for restricted use of monies in FY 2017.

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

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government of \$3,218,200 in FY 2017. *(Please see the Federal Transfer Payment Section above, and the Federal Financial Participation Repayment Section below, for more information.)*

Federal Financial Participation Repayment

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

Fund Transfers

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

Disallowed Costs

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

Excess Retained Earnings

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

FY 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 from the Health Insurance Trust Fund.
 - \$284,100 from the Risk Management Revolving Fund.
 - \$2,168,100 from the Automation Operations Fund.
- \$46,100 related to interest on fund transfers.
- \$228,000 related to excess retained earnings in the IT Fund.

FY 2018

Based on prior experience of federal repayment and estimates provided by ADOA, the federal government is likely to charge the state approximately \$14,404,700 for restricted uses. This amount consists of:

- \$13,977,800 for fund transfers from 9 different funds in FY 2017, primarily HITF.
- \$232,600 related to interest on fund transfers.
- \$194,300 for 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.)

One-Time Relocation Costs

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Administration - AFIS II Collections Fund (ADA4203/A.R.S. § 35-142)		Partially-Appropriated
Source of Revenue: Financial transaction processing fees.		
Purpose of Fund: To operate the Arizona Financial Information System (AFIS) II. The system was decommissioned in FY 2016. Laws 2017, Chapter 305 appropriated \$375,900 in FY 2018 for the departments Grants and Federal Resources Office.		
Appropriated Funds Expended	0	375,900
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	1,148,200	772,300
Air Quality Fund (ADA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: Annual air quality and emissions fees assessed on motor vehicle registrations, as well as legislative appropriations.		
Purpose of Fund: To administer a travel reduction program, as defined by A.R.S. § 49-588, including bus ride subsidies for state employees.		
Funds Expended	499,600	927,300
Year-End Fund Balance	0	0
Arizona Financial Information System Collections Fund (ADA1234/A.R.S. § 41-740.01)		Appropriated
Source of Revenue: Revenues are collected from state agencies to recover pro rata costs of operating AFIS. Pro rata charges are determined by ADOA and allocated to each agency based on AFIS usage.		
Purpose of Fund: Supplements the cost of operating AFIS.		
Funds Expended	9,296,400	9,457,500
Year-End Fund Balance	302,000	302,000
Automation Operations Fund (ADA4230/A.R.S. § 41-711)		Appropriated
Source of Revenue: Charges to agencies and other political entities for information technology products and services. The fund has continuously appropriated sub-accounts for agreements made with other states and the Arizona Health Care Cost Containment System.		
Purpose of Fund: To provide agencies and other political entities data processing and information technology consulting services and to maintain the integrity and security of state information. Balances reflect a transfer into the Automation Projects Fund of \$7,420,600 in FY 2017 and \$6,703,000 in FY 2018 and a transfer into the General Fund of \$461,600 in FY 2017. <i>(See the Automation Projects Fund page for more details.)</i>		
Funds Expended	19,890,800	24,067,000
Transfer to the Automation Projects Fund	7,420,600	6,703,000
Transfer to the General Fund	461,600	0
Year-End Fund Balance	14,810,200	8,040,200
Capital Outlay Stabilization Fund (ADA1600/A.R.S. § 41-792.01)		Appropriated
Source of Revenue: Rental and tenant improvement charges to agencies occupying ADOA owned buildings.		
Purpose of Fund: To pay maintenance, utilities, construction, and administrative costs for state-owned buildings.		
Funds Expended	15,316,700	18,159,900
Year-End Fund Balance	11,743,500	7,215,900
Certificate of Participation Fund (ADA5005/A.R.S. § 41-791.02)		Non-Appropriated
Source of Revenue: Rental and tenant improvement charges to agencies occupying buildings under Certificate of Participation (COP) lease-purchase agreements.		
Purpose of Fund: To make COP lease-purchase payments on buildings under such agreements.		
Funds Expended	134,768,800	138,705,900
Year-End Fund Balance	5,091,000	1,735,900

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Construction Insurance Fund (ADA4219/A.R.S. § 41-622)		Non-Appropriated
Source of Revenue: Risk management charges to agencies for state construction projects. The construction and design insurance rate is set by ADOA and reviewed by the Joint Committee on Capital Review.		
Purpose of Fund: To self-insure state construction projects against tort losses from design and construction defects.		
Funds Expended	1,896,300	6,805,000
Year-End Fund Balance	16,431,200	12,626,200
Co-Op State Purchasing Agreement Fund (ADA4213/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Annual subscription fees paid by local governments for state purchasing records, fees paid by individuals for copies of public records, and fees paid by vendors participating in the State Contract Show.		
Purpose of Fund: To operate the cooperative purchasing program and support its membership list.		
Funds Expended	3,513,900	3,200,000
Year-End Fund Balance	1,259,000	1,259,000
Corrections Fund (ADA2088/A.R.S. § 41-1641)		Appropriated
Source of Revenue: Luxury taxes on alcohol and tobacco products.		
Purpose of Fund: To pay for construction, major maintenance, lease, purchase, renovation, or conversion of Arizona Department of Corrections (ADC) and Department of Juvenile Corrections (DJC) facilities. ADOA uses these monies to oversee construction projects benefiting ADC or DJC.		
Funds Expended	423,000	573,600
Year-End Fund Balance	0	0
Emergency Telecommunication Services Revolving Fund (ADA2176/A.R.S. § 41-704)		Non-Appropriated
Source of Revenue: The telecommunication services excise tax, currently 20¢ per wire or wireless account, levied on monthly telephone bills and remitted by telephone companies, as authorized by A.R.S. § 42-5252. In addition, a tax equal to 0.8% of the gross income derived from the retail sale of prepaid wireless telecommunication services, as authorized by A.R.S. § 42-5402.		
Purpose of Fund: To aid the political subdivisions of the state in implementing and operating emergency telecommunication services (911); to purchase necessary equipment and consulting services (up to 5% of revenue); to pay monthly recurring costs for capital, maintenance, and operations; and to reimburse wireless carriers for the costs of compliance.		
Funds Expended	16,669,700	18,107,200
Year-End Fund Balance	7,910,000	6,777,600
Employee Related Expenditures/Benefits Administration Fund (ITA3035/A.R.S. § 38-651.05)		Non-Appropriated
Source of Revenue: State employer and state employee premium contributions for vision, flexible spending, disability, life, and accident insurance.		
Purpose of Fund: To administer state employee benefit plans and pay non-health insurance premiums.		
Funds Expended	33,015,000	32,931,300
Year-End Fund Balance	4,224,200	4,307,900
Federal Grants (ADA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants, including pass through grants from the several agencies.		
Purpose of Fund: To pay for security related equipment and programs, as well as to administer monies as sub-grantee for federal projects.		
Funds Expended	3,572,400	1,686,700
Year-End Fund Balance	746,200	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Surplus Materials Revolving Fund (ADA4215/A.R.S. § 41-2606)		Appropriated
Source of Revenue: Federal surplus property service and handling fees.		
Purpose of Fund: To collect, store, and administer the sale of federal surplus property. Federal regulations concerning the disposition of federal surplus property cap the year-end balance of this fund at \$50,000. When the fund exceeds this cap, the department must discount its service and handling charges for federal surplus materials transferred to agencies in the following fiscal year.		
Funds Expended	34,900	465,700
Year-End Fund Balance*	79,700	(343,100)
IGA and ISA Fund (ADA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: To execute various intergovernmental and interagency service agreements.		
Funds Expended	8,701,000	6,075,400
Year-End Fund Balance	3,296,700	21,300
Information Technology Fund (ADA2152/A.R.S. § 18-401)		Appropriated
Source of Revenue: A pro rata share of 0.2% of total payroll, charged to all budget units subject to oversight of information technology projects by ADOA's Arizona Strategic Enterprise Technology (ASET) Office or by the Information Technology Authorization Committee (ITAC).		
Purpose of Fund: Provides personnel funding for statewide information technology planning, coordinating, oversight, and consulting. The Statewide Strategic Information Technology Plan is prepared annually by Information Technology (IT) Fund personnel with input from state agency Chief Information Officers. Additionally, monies from the IT Fund also support the operation of the Statewide Information Security and Privacy Office (SISPO). Balances reflect a transfer into the Automation Projects Fund of \$527,800 in FY 2017 and \$500,000 in FY 2018. <i>(See the Automation Projects Fund page for more details.)</i>		
Funds Expended	2,910,100	2,948,900
Transfer to the Automation Projects Fund	527,800	500,000
Year-End Fund Balance	3,098,200	3,158,700
Legislative, Executive, and Judiciary Public Buildings Land Fund (ADA3127/A.R.S. § 37-525)		Appropriated
Source of Revenue: State trust land lease revenues.		
Purpose of Fund: To support state Legislative, Executive, and Judicial buildings. In FY 2005, to construct a new Library and Archives Building.		
Funds Expended	0	0
Year-End Fund Balance	4,264,200	4,903,800
Monument and Memorial Repair Fund (ADA2338/A.R.S. § 41-1365)		Appropriated
Source of Revenue: Monies derived from fundraising activities, monies that are collected by the proponents of a monument or memorial, grants, donations, and legislative appropriations.		
Purpose of Fund: For the maintenance, repair, reconditioning, or relocation of monuments or memorials and for supporting mechanical equipment in the Governmental Mall.		
Funds Expended	0	0
Year-End Fund Balance	219,500	219,500
Motor Vehicle Pool Revolving Fund (ADA4204/A.R.S. § 41-804)		Appropriated
Source of Revenue: Charges to agencies for the use of motor pool vehicles.		
Purpose of Fund: To operate the motor vehicle pool.		
Funds Expended	6,906,400	10,154,100
Year-End Fund Balance	2,295,900	361,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Oil Overcharge Fund (GVA3171/A.R.S. § 41-1509)		Non-Appropriated
Source of Revenue: Federal court settlements by oil companies who overcharged consumers during the petroleum price controls of the 1970's, and interest earnings. In FY 2016, \$731,600 was transferred from the Governor's Office to ADOA.		
Purpose of Fund: To provide restitution to the citizens of Arizona. Restitution is to be made through energy programs administered by the state.		
Funds Expended	385,800	231,300
Year-End Fund Balance	231,300	0
Payroll Administration Fund (ADA9200/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Collects and pays out all monies associated with the statewide payroll functions. Fund 9200 incorporates several payroll funds (ADA9220, ADA9230, NAU9202, UAA9203, and ASU9221). Fund 9230 collects a one-time \$50 charge for setting up a garnishment, which is granted by the court, a \$5 employee fee for each non-exempt statement that is generated per payday, and a \$1 administrative fee for child and spousal support orders.		
Purpose of Fund: Generally, revenues and expenditures are not used for normal payroll activities. The only balance that accumulates in this fund is for Unemployment Tax. For Fund 9230, monies are used for administrative costs related to garnishments and child support.		
Funds Expended	796,800	64,400
Year-End Fund Balance	4,565,000	4,596,600
Personnel Division Fund (ADA1107/A.R.S. § 41-750)		Appropriated
Source of Revenue: A 0.83% (permanent law) charge on the total payroll of each agency within the ADOA personnel system.		
Purpose of Fund: To operate the ADOA Human Resources Division.		
Funds Expended	12,032,200	12,951,500
Year-End Fund Balance	2,225,500	1,048,500
Retiree Accumulated Sick Leave Fund (ADA3200/A.R.S. § 38-616)		Non-Appropriated
Source of Revenue: A 0.40% charge on the total benefit-eligible payroll of each agency within the ADOA personnel system. By statute, the rate may not exceed 0.55% and is set by ADOA with Joint Legislative Budget Committee review.		
Purpose of Fund: To compensate eligible retiring state employees for accumulated sick leave, to pay insurance premiums, and to administer the program. Payments are calculated as a percentage, tiered according to accrual level of hourly salary. Payments to an individual shall not exceed \$30,000.		
Funds Expended	15,481,100	16,240,400
Year-End Fund Balance	2,825,200	1,284,800
Risk Management Revolving Fund (ADA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to state agencies, boards, and commissions insured under the state's risk management system, as well as recoveries by the state through litigation.		
Purpose of Fund: To pay claim costs, administrative program costs, and to purchase insurance for coverage for losses not covered under the self-insured limits. Expenditures include a transfer into the Automation Projects Fund of \$440,000 in FY 2018. <i>(See the Automation Projects Fund page for more details.)</i>		
Funds Expended	89,598,800	90,951,400
Transfer to the Automation Projects Fund	0	440,000
Year-End Fund Balance	73,234,600	48,923,800
Special Employee Health Insurance Trust Fund (ADA3015/A.R.S. § 38-654)		Partially-Appropriated
Source of Revenue: Employer and employee medical and dental insurance contributions.		
Purpose of Fund: To administer and pay premiums and claims for state employee health insurance plans, as well as to operate the Wellness and Communications program. Only administrative expenditures from this fund are subject to legislative appropriation.		
Appropriated Funds Expended	4,884,800	5,302,000
Non-Appropriated Funds Expended	885,384,400	936,286,900
Year-End Fund Balance	152,768,300	97,783,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Special Events Fund (ADA2503/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Set-up fees for special events on state property.		
<i>Purpose of Fund:</i> To set up special events on state property.		
Funds Expended	16,400	9,000
Year-End Fund Balance	2,200	3,200
Special Services Revolving Fund (ADA4208/A.R.S. § 35-193.02)		Partially-Appropriated
<i>Source of Revenue:</i> Payments by agencies using various centralized printing, copying, and repair services offered by ADOA. Laws 2016, Chapter 128 consolidates the State Board's Office and the Central Services Bureau in ADOA. Appropriated monies are collected from 11 small regulatory boards residing in the State Boards' Office.		
<i>Purpose of Fund:</i> To provide centralized office services, printing, and other administrative or management services.		
Appropriated Funds Expended	412,800	812,300
Non-Appropriated Funds Expended	658,000	785,900
Year-End Fund Balance	317,900	317,900
State Employee Travel Reduction Fund (ADA2261/A.R.S. § 41-101.03)		Non-Appropriated
<i>Source of Revenue:</i> Grants by the Maricopa Association of Governments, the State Travel Reduction Planning Office, and the Arizona Department of Environmental Quality.		
<i>Purpose of Fund:</i> To operate and administer a ride-sharing program for the transportation of state employees between home and work.		
Funds Expended	305,900	833,900
Year-End Fund Balance	797,100	484,200
State Surplus Materials Revolving Fund (ADA4214/A.R.S. § 41-2606)		Appropriated
<i>Source of Revenue:</i> State surplus property sales revenues.		
<i>Purpose of Fund:</i> To collect, store, and administer the sale of state surplus property. The majority of revenues are returned to donor agencies. The department retains a service and handling fee.		
Funds Expended	2,645,300	2,960,600
Year-End Fund Balance	692,900	927,500
State Web Portal Fund (ADA2531/A.R.S. § 18-421)		Partially-Appropriated
<i>Source of Revenue:</i> Grants, donations, and web portal revenues, including any fees collected from the sale of certain types of motor vehicle records to commercial customers, less revenues deposited into the Highway User Revenue Fund, as stipulated in A.R.S. § 41-3506.		
<i>Purpose of Fund:</i> To maintain and upgrade the state's common web portal, including enhancement of existing products and the development of new applications. Monies received from private grants or donations, as well as federal grants, are non-appropriated. Expenditures include a transfer into the Automation Projects Fund of \$5,650,000 in FY 2017 and \$5,065,600 in FY 2018. (See the Automation Projects Fund page for more details.)		
Appropriated Funds Expended	3,433,200	5,551,600
Non-Appropriated Funds Expended	0	0
Transfer to the Automation Projects Fund	5,650,000	5,065,000
Year-End Fund Balance	5,585,600	2,377,200
Statewide ARRA Administration SWCAP Fund (GVA2950/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Indirect federal cost recoveries associated with the statewide cost allocation plan (SWCAP). These funds were transferred to ADOA from the Governor's Office in FY 2012.		
<i>Purpose of Fund:</i> To defray administrative expenses of implementing the federal American Recovery and Reinvestment Act.		
Funds Expended	0	0
Year-End Fund Balance	571,500	571,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Statewide Donations Fund (ADA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Employee donations and other miscellaneous deposits.		
Purpose of Fund: Employee donations are used to recognize outstanding employees.		
Funds Expended	15,300	4,500
Year-End Fund Balance	50,000	5,500
Telecommunications Fund (ADA4231/A.R.S. § 41-713)		Appropriated
Source of Revenue: Administrative surcharges on telecommunications services for agencies and other political entities.		
Purpose of Fund: To operate the Telecommunications Program Office, which manages and oversees statewide contracts for telecommunications products and services. The state's contractors operate and equip telecommunications voice, data, video, and graphics systems, allowing the collection, storage, interchange, retrieval, and transmission of information.		
Funds Expended	1,385,500	1,858,700
Year-End Fund Balance	1,097,500	661,000

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

Arizona Department of Administration - Automation Projects Fund

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
INDIVIDUAL PROJECTS ^{1/2/}			
Department of Administration			
<i>Full Time Equivalent Positions</i>	15.0	15.0	15.0
AFIS Replacement	4,815,300	0	0
e-Procurement System Replacement	300,000	0	0
ASET Initiatives			
SDC/Network and Security Infrastructure	2,015,200	3,405,100	0
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	1,500,000
E-Government	1,780,500	500,000	0
Information Technology Consolidation Assessment	750,000	0	0
HRIS Replacement Feasibility Study	0	500,000	0
ASET Initiatives Subtotal	9,646,400	13,208,600	1,500,000
Department of Administration Subtotal	14,761,700	13,208,600	1,500,000
Statewide e-Licensing System	0	595,500	0
Department of Child Safety			
CHILDS Replacement	3,512,300	11,100,000	0
Department of Corrections			
AIMS Replacement	5,964,700	0	0
Department of Economic Security			
Information Technology Security	112,200	0	0
Department of Education			
Education Learning and Accountability System	7,358,200	7,300,000	0
Department of Environmental Quality			
E-Licensing	3,041,800	3,200,000	0
Arizona Industrial Commission			
Claims Processing System	0	1,017,400	0
Arizona State Lottery Commission			
Information Technology System Upgrade	0	3,497,400	0
Department of Public Safety			
Arizona Criminal Justice Information System	0	2,343,000	0
Microwave System Upgrade	0	2,500,000	0
Department of Public Safety Subtotal	0	4,843,000	0
Department of Revenue			
Enterprise Tax System Assessment	0	0	0
Information Technology Infrastructure	0	11,000,000	0
Department of Revenue Subtotal	0	11,000,000	0
TOTAL - ALL PROJECTS ^{3/}	34,750,900	55,761,900	1,500,000

^{1/} General Fund monies are transferred into the Automation Projects Fund to finance certain projects. See Table 2 for Non-General Fund transfers into the APF. These individual transfers are discussed in the narrative as part of the individual projects listed in the Automation Projects Fund.

^{2/} Represents Expenditures from the APF. The FY 2017 actual column includes expenditures from FY 2015, FY 2016, and FY 2017 appropriations.

^{3/} Total excludes \$3,000,000 appropriated from the APF in FY 2018 to ADE for K-12 Broadband.

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	34,750,900	55,761,900	1,500,000
SUBTOTAL - Other Appropriated Funds	34,750,900	55,761,900	1,500,000
SUBTOTAL - Appropriated Funds	34,750,900	55,761,900	1,500,000
TOTAL - ALL SOURCES	34,750,900	55,761,900	1,500,000

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

Background

The 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.

Pursuant to A.R.S. § 18-104, any large-scale information technology (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 the Information Technology Authorization Committee (ITAC). The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project. Statute also requires budget units to submit quarterly reports from the third-party consultant to ITAC and the JLBC on the project progress within 30 days after the end of the calendar quarter.

The Baseline would shift funding for IT projects at non-ADOA agencies from APF by funding these IT projects directly in each individual agency budget. ADOA IT projects would continue to be funded through the APF.

A FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote requires ADOA to submit quarterly reports, within 30 days of the end of the calendar quarter, to the JLBC on the progress of all automation projects funded through the APF, including the projects' expenditures to date, deliverables, timeline for completion, and current status. The Baseline would modify this footnote to require ADOA to report on all projects approved by ITAC.

Department of Administration

e-Procurement System Replacement

The Baseline includes no funding from the APF in FY 2019 for the replacement of the state's e-Procurement system. This amount is unchanged from FY 2018.

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 \$3,000,000 to the DCS for the replacement of the 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 reallocated this funding to DCS to replace the CHILDS system. *(Please see Department of Child Safety section 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. ADOA has proceeded to implement the new system, but does not have appropriated funding for the full \$12,081,400 cost.

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 Baseline includes \$1,500,000 and 15 FTE Positions from the APF 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:

Remove One-Time Funding

The Baseline includes a decrease of \$(11,708,600) from the APF in FY 2019 to remove all discretionary IT projects except project management.

Of the FY 2019 total amount, all \$1,500,000 will be financed by a transfer from Automation Operations Fund.

The FY 2019 amount will fund Personal Services and Employee Related Expenditures to manage and oversee IT projects statewide.

Statewide e-Licensing System

The Baseline includes no funding from the APF in FY 2019 for a new statewide e-Licensing system. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(595,500) from the APF in FY 2019 for the elimination of one-time development costs of the system.

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. ADOA has continued to add additional agencies to the licensing system outside of the APF.

Department of Child Safety

CHILDS Replacement

The Baseline includes no funding from the APF in FY 2019 to replace Children's Information Library and Data Source (CHILDS) system operated by the Department of Child Safety (DCS). FY 2019 adjustments are as follows:

Baseline Adjustment

The Baseline includes a decrease of \$(11,100,000) from APF in FY 2019 to remove one-time funding from APF for the CHILDS Replacement Project. This amount includes a decrease of \$(5,000,000) appropriated from the General Fund as a transfer to the APF for this project.

The Baseline funds the continuation of this project directly in the DCS budget (*please see the Department of Child Safety section*).

Department of Corrections

AIMS Replacement

The Baseline includes no funding from the APF 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 appropriates any remaining FY 2017 AIMS project balances for use in FY 2018.

The AIMS system assists in the tracking, identification, population management, sentencing calculations, and the appeals and grievances processes for inmates in the correctional system.

A contract 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 Baseline includes no funding in FY 2019 from the APF 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 is financed by a transfer from the DES Special Administration Fund. This was in addition to a FY 2016 appropriation of \$936,400, also financed by a transfer from the DES Special Administration Fund.

In April 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$609,700 for IT security enhancement projects. Of that total, \$487,800 is from the APF and \$121,900 is from Federal Funds. DES utilized the funds to install Network Access Control (NAC) software to prevent unauthorized computers and wireless access points from accessing DES' network. In September 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$222,400 to complete the NAC project.

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

The FY 2018 budget appropriates any remaining FY 2016 and FY 2017 DES project balances for the same purpose in FY 2018, and prohibits the monies from being used for an assessment to replace any IT system at the department. In addition, It requires the department to report to JLBC on the status of the department's IT security system.

Department of Education

Education Learning and Accountability System

The Baseline includes no funding from the APF 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 Baseline 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 development as specified in the Legislature's 3-year spending plan associated with the enacted FY 2018 budget. This amount includes a decrease \$(7,300,000) appropriated from the General Fund as a transfer to the APF for this project.

Department of Environmental Quality

E-Licensing

The Baseline includes no funding from the APF in FY 2019 for E-Licensing. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(3,200,000) from the APF in FY 2019 to remove one-time funding for Phase 4 of the E-Licensing project.

The FY 2018 APF appropriation was financed by a transfer from the Underground Storage Tank Revolving Fund (UST Fund) to the APF.

Industrial Commission of Arizona

Claims Processing System

The Baseline includes no funding from the APF 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 Baseline includes no funding from the APF 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 Baseline 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 plans to use the remaining appropriation for additional infrastructure upgrades.

Department of Public Safety

Arizona Criminal Justice Information System

The Baseline includes no funding from the APF in FY 2019 for upgrades to the Arizona Criminal Justice Information System (ACJIS). FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(2,343,000) from the APF in FY 2019 to eliminate one-time funding for upgrades to ACJIS.

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

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

Microwave System Upgrade

The Baseline includes no funding from the APF in FY 2019 for upgrades to the statewide Microwave Radio System. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(2,500,000) from the APF in FY 2019 to eliminate one-time funding for upgrades to the Microwave Radio System.

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

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

Department of Revenue

Information Technology Infrastructure

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

Remove One-Time Funding

The Baseline 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:

Department of Revenue Administrative Fund	4,000,000
Liability Setoff Program Revolving Fund	4,000,000

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. The project is expected to be completed by April 2018. DOR intends to pay for the \$5,600,000 in

yearly ongoing costs from the department's operating budget.

FORMAT — Lump Sum by Project

FOOTNOTES

Standard Footnotes

The Department of Administration shall submit to the Joint Legislative Budget Committee, within 30 days after the last day of each calendar quarter, a quarterly report on the implementation of projects approved by the Information Technology Authorization Committee, including the project's expenditures to date, deliverables, timeline for completion and current status. *(The Baseline would modify the ADOA's reporting requirement to include all projects approved by ITAC which would include IT projected funded in other agency budgets.)*

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning FY 2018 projects and appropriating FY 2018 APF balances to the department for the same purposes in FY 2019.

Other Issues

APF Revenues and Transfers

Since the APF's inception in FY 2013, state agencies have transferred monies into the APF to finance specific IT projects. *Table 1* summarizes APF revenues from FY 2017 through FY 2019.

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

Table 1			
Automation Projects Fund			
(\$ in thousands)			
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Beginning Balance	30,009.9	42,063.7	(3,145.2)
Revenues			
<u>Administration, Department of</u>			
General Fund			
e-Procurement Automation Charges ^{1/}	9,000.0	^{2/3/}	
Automation Operations Fund	7,420.6	6,703.0	1,500.0
State Web Portal Fund	5,650.0	5,065.6	
Information Technology Fund	527.8	500.0	
Risk Management Revolving Fund		440.0	
<u>Statewide E-Licensing System</u>			
Various Funds (See FY 2018 Appropriations Report)		595.5	
<u>Corrections, Department of</u>			
Inmate Store Proceeds Fund	1,000.0		
Special Services Fund	4,000.0		
ARCOR Enterprise Services Revolving Fund	1,000.0		
State Charitable Land Fund	1,000.0		
Penitentiary Land Fund	1,000.0		
<u>Child Safety, Department of</u>			
General Fund - Direct Appropriation	4,581.6	5,000.0	
General Fund - Redirected e-Procurement	3,000.0 ^{2/}		
Redirected AFIS Replacement		^{3/}	
<u>Economic Security, Department of</u>			
Special Administration Fund	1,294.7		

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Education, Department of</u>			
General Fund	7,300.0	7,300.0	
<u>Environmental Quality, Department of</u>			
Underground Storage Tank Revolving Fund		3,200.0	
<u>Industrial Commission of Arizona</u>			
Administrative Fund		1,017.4	
<u>State Lottery Commission</u>			
State Lottery Fund		3,497.4	
<u>Department of Public Safety</u>			
Public Safety Equipment Fund		1,000.0	
Concealed Weapons Permit Fund		2,500.0	
Fingerprint Clearance Card Fund		1,343.0	
<u>Revenue, Department of</u>			
Department of Revenue Administrative Fund		4,000.0	
Liability Setoff Program Revolving Fund ^{4/}		4,000.0	
Revenue Summary			
General Fund	14,881.6	12,300.0	0.0
Other Funds	31,893.1	33,861.9	1,500.0
Revenue Total	46,774.7	46,161.9	1,500.0
Total Funds Available w/ Beginning Balance	76,486.6	88,255.6	3,354.8
Total Expenditures (Current FY Appropriation) ^{5/}	15,467.6	58,761.9	1,500.0
Total Expenditures (Previous FY Appropriation)	<u>19,283.3</u>	<u>32,608.9</u>	<u>0.0</u>
Total Expenditures	34,720.9	91,325.8	1,500.0
Ending Balance	42,063.7	(3,145.2)	(3,145.2)
<p>^{1/} The FY 2017 amount consists of charges to eligible state agency funds for the replacement of the state's e-Procurement system.</p> <p>^{2/} The FY 2018 budget redirects \$3,000,000 from the General Fund appropriated in FY 2017 to ADOA for the e-Procurement replacement project to the DCS CHILDS project.</p> <p>^{3/} The FY 2016 ending balance includes \$3,100,000 of unspent AFIS Replacement Project contingency funds. The FY 2017 budget requires ADOA to use \$3,100,000 from the unused AFIS contingency to replace the e-Procurement system. The FY 2018 budget further redirects these monies to the DCS CHILDS project.</p> <p>^{4/} The FY 2018 budget includes a footnote which would revert any unspent FY 2017 monies for the DOR Enterprise Tax System replacement assessment back to the Liability Setoff Program Revolving Fund.</p> <p>^{5/} Includes \$3,000,000 appropriated to ADE in FY 2018 from the APF balance for ADE K-12 Broadband. (Please see the ADE Section for more information.)</p>			

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Automation Projects Fund (ADA2566/A.R.S. § 41-714)		Appropriated
Source of Revenue: Monies appropriated by the Legislature.		
Purpose of Fund: To implement, upgrade, or maintain automation and information technology projects for any state agency.		
Appropriated Funds Expended	15,467,600	55,761,900
Prior Year Appropriation Expended	19,283,300	32,608,900
Year-End Fund Balance*	42,063,700	(3,145,200)

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

Office of Administrative Hearings

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	205,100
Other Operating Expenditures	99,600	90,800	90,800
AGENCY TOTAL	860,500	870,900	860,500
FUND SOURCES			
General Fund	860,500	870,900	860,500
SUBTOTAL - Appropriated Funds	860,500	870,900	860,500
Other Non-Appropriated Funds	820,600	812,600	812,600
TOTAL - ALL SOURCES	1,681,100	1,683,500	1,673,100

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 Baseline includes \$860,500 and 12 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(10,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

Other Issues

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA and ISA Fund (HGA2500/A.R.S. § 41-1092.01)		Non-Appropriated
Source of Revenue: Monies received by OAH for contractual, administrative law judge services provided to state agencies.		
Purpose of Fund: To cover actual expenses of providing personnel and services to state agencies on a contractual basis.		
Funds Expended	820,600	812,600
Year-End Fund Balance	0	0

Arizona Commission of African-American Affairs

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	24,100
Professional and Outside Services	300	0	0
Travel - In State	0	3,200	3,200
Other Operating Expenditures	14,600	14,600	14,600
AGENCY TOTAL	122,900	125,800	125,000

FUND SOURCES			
General Fund	122,900	125,800	125,000
SUBTOTAL - Appropriated Funds	122,900	125,800	125,000
Other Non-Appropriated Funds	7,800	15,000	15,000
TOTAL - ALL SOURCES	130,700	140,800	140,000

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

Operating Budget

* * *

The Baseline includes \$125,000 and 3 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(800) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Commission of African-American Affairs Fund (AMA2397/A.R.S. § 41-533)		Non-Appropriated
Source of Revenue: Gifts, grants, and fees from the Arizona African-American town hall.		
Purpose of Fund: To pay for the operating costs of the Arizona Commission of African-American Affairs.		
Funds Expended	7,800	15,000
Year-End Fund Balance	300	300

Arizona Department of Agriculture

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	196.3	204.3	204.3
Personal Services	5,271,500	5,958,300	5,958,300
Employee Related Expenditures	2,249,400	2,618,100	2,464,600
Professional and Outside Services	405,500	205,000	205,000
Travel - In State	534,700	596,400	596,400
Travel - Out of State	48,900	53,000	53,000
Other Operating Expenditures	1,289,500	1,310,000	1,249,000
Equipment	190,200	24,400	24,400
OPERATING SUBTOTAL	9,989,700	10,765,200	10,550,700
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
Red Imported Fire Ant Control	23,200	23,200	23,200
AGENCY TOTAL	10,429,500	11,280,200	11,065,700
FUND SOURCES			
General Fund	9,059,800	9,563,700	9,356,300
<u>Other Appropriated Funds</u>			
Air Quality Fund	1,369,700	1,441,500	1,434,400
Nuclear Emergency Management Fund	0	275,000	275,000
SUBTOTAL - Other Appropriated Funds	1,369,700	1,716,500	1,709,400
SUBTOTAL - Appropriated Funds	10,429,500	11,280,200	11,065,700
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	30,609,700	30,395,200

AGENCY DESCRIPTION — The Arizona Department of Agriculture administers and enforces agriculture-related statutes. The department regulates certain phases of food production (such as milking, butchering, and harvesting) to guard public health and to ensure product quality. The department administers programs to protect livestock and crops from pests and diseases and to protect farm workers who handle agricultural chemicals. It also tests certain non-food agricultural products to ensure product quality and content, as well as providing administrative support to several agricultural product promotion groups. 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.

Operating Budget

The Baseline includes \$10,550,700 and 201.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$9,116,300
Air Quality Fund	1,434,400

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(153,500) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. These amounts consist of:

General Fund (146,400)
Air Quality Fund (7,100)

(Please see the Technical Budget Assumptions section.)

Agricultural Consulting and Training

The Baseline 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 Baseline 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 Baseline 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 Baseline 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. These amounts are unchanged from FY 2018.

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

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FORMAT — Operating Lump Sum with Special Line Items by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue fee raising authority and an exemption relating to establishing fees for the Arizona Department of Agriculture in FY 2019. It would also continue an intent clause 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	<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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Administrative Support Fund (AHA2436/A.R.S. § 3-108)		Non-Appropriated
Source of Revenue: Monies are collected from each commodity council based on annually negotiated interagency agreements.		
Purpose of Fund: For costs incurred by the department in providing administrative support.		
Funds Expended	40,800	40,300
Year-End Fund Balance	56,600	56,600
Agricultural Consulting and Training Trust Fund (AHA1239/A.R.S. § 5-113)		Partially-Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To fund the agricultural consulting and training program established by A.R.S. § 3-109.01. Appropriated expenditures are not displayed in FY 2017 or FY 2018 to avoid double counting of the General Fund.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	200	11,700
Year-End Fund Balance	31,300	19,600
Agricultural Products Marketing Fund (AHA2368/A.R.S. § 3-419)		Non-Appropriated
Source of Revenue: Assessments on the Arizona Leafy Green Products Shipper Marketing Agreement commodities.		
Purpose of Fund: To fund the Arizona Leafy Green Products Shipper Marketing Committee and to ensure compliance with the accepted food safety practices through mandatory government audits.		
Funds Expended	399,000	405,300
Year-End Fund Balance	457,200	312,400
Air Quality Fund (ADA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: Annual air quality and emissions fees assessed on motor vehicle registrations, as well as legislative appropriations.		
Purpose of Fund: To pay the cost of air quality research, experiments, education, and programs conducted by or for the department.		
Funds Expended	1,369,700	1,441,500
Year-End Fund Balance	51,200	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Aquaculture Trust Fund (AHA2297/A.R.S. § 3-2913)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the regulation of aquaculture.		
Purpose of Fund: To administer and enforce the provisions of A.R.S. Title 3, Chapter 16, relating to aquaculture. Aquaculture is the controlled growth and harvest of aquatic plants and animals such as fish, shellfish, and algae.		
Funds Expended	0	6,200
Year-End Fund Balance	33,700	32,500
Beef Council (Livestock Board Collection and Administration) Fund (AHA2083/A.R.S. § 3-1236)		Non-Appropriated
Source of Revenue: \$1 per head surcharge collected on behalf of the Arizona Beef Council when animals are inspected by the department for sale. The department retains 5 cents per dollar, while 95 cents per dollar is forwarded to this fund.		
Purpose of Fund: For collection and administration costs.		
Funds Expended	301,800	300,000
Year-End Fund Balance	49,900	25,000
Citrus, Fruit and Vegetable Trust Fund (AHA2260/A.R.S. § 3-447)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the assessments and civil penalties relating to the standardization of citrus, other fruits, and vegetables.		
Purpose of Fund: To enable producers and shippers to develop uniform grades and standards for citrus, fresh fruit, and vegetables and to allow field and shed inspections of commodities produced in the state.		
Funds Expended	332,500	395,000
Year-End Fund Balance	160,700	126,800
Citrus Trust Fund (AHA2299/A.R.S. § 3-468.04, 3-468.06)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the assessment on citrus produced in the state, other charges, and interest.		
Purpose of Fund: To support research, development, and survey programs concerning varietal development, eradication of citrus pests, and other programs deemed appropriate to production, harvesting, handling, and hauling from field to market.		
Funds Expended	50,800	66,800
Year-End Fund Balance	81,300	54,300
Commercial Feed Trust Fund (AHA2012/A.R.S. § 3-2607)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund for licensing fees and fees collected for the inspection of animal and bird feeds.		
Purpose of Fund: To regulate animal and bird feeds.		
Funds Expended	252,800	278,500
Year-End Fund Balance	461,700	505,600
Commodity Promotion Fund (AHA2458/A.R.S. § 3-109.02)		Non-Appropriated
Source of Revenue: Proceeds of a fee collected for a Certificate of Free Sale and any sales of merchandise with the Arizona Grown trademark. A Certificate of Free Sale is a document authenticating that a commodity is generally and freely sold in domestic channels of trade. Many countries require this documentation before allowing a shipment of consumable products to enter their borders and markets.		
Purpose of Fund: To provide for programs to promote the production and consumption of Arizona agricultural products domestically and abroad.		
Funds Expended	10,400	9,000
Year-End Fund Balance	12,300	10,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Cotton Research and Protection Council Fund (AHA2013/A.R.S. § 3-1085)		Non-Appropriated
<i>Source of Revenue:</i> Assessments on each bale of cotton produced in the state, as well as fines and interest earnings.		
<i>Purpose of Fund:</i> To support research programs related to cotton production or protection and to provide a program to refund collected fees as an incentive for boll weevil control.		
Funds Expended	2,357,000	3,339,000
Year-End Fund Balance	4,737,500	4,106,500
Dangerous Plants, Pests and Diseases Trust Fund (AHA2054/A.R.S. § 3-214.01)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund for certification fees and reimbursements for the destruction of dangerous plants, pests, and diseases.		
<i>Purpose of Fund:</i> To prevent the introduction and propagation of, and to control and destroy, dangerous plants, pests, and diseases.		
Funds Expended	94,400	127,200
Year-End Fund Balance	105,600	68,400
Designated Fund (AHA3011/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Fees for laboratory services and phytosanitary certifications (certifying produce that is sent overseas), industry contributions for the Arizona Grown Program, 5% of Beef Council surcharges, a Risk Management grant from the Arizona Department of Administration, and other grants and contributions.		
<i>Purpose of Fund:</i> To administer the purpose for which the fee, grant, or contribution is intended.		
Funds Expended	476,500	843,600
Year-End Fund Balance	745,100	514,200
Egg Inspection Trust Fund (AHA2022/A.R.S. § 3-717)		Non-Appropriated
<i>Source of Revenue:</i> A non-appropriated trust fund with fees from the regulation of eggs and egg products.		
<i>Purpose of Fund:</i> To administer the Egg Inspection Program.		
Funds Expended	1,455,100	1,623,400
Year-End Fund Balance	582,600	371,300
Equine Inspection Fund (AHA2489/A.R.S. § 3-1345.01)		Non-Appropriated
<i>Source of Revenue:</i> Inspection fees for processing ownership and transportation of horses.		
<i>Purpose of Fund:</i> To fund the issuance of horse ownership and transportation certificates.		
Funds Expended	0	0
Year-End Fund Balance	1,100	1,300
Federal Funds (AHA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants.		
<i>Purpose of Fund:</i> As determined by federal law with regard to U.S. Department of Agriculture meat inspection regulation enforcement, hazardous plant pest eradication, increasing consumption of specialty crops, and studies of threatened and endangered plant species. (The meat and poultry inspection amounts are a reimbursement to the General Fund and, therefore, pass through this fund without a net impact on expenditures shown here.)		
Funds Expended	5,238,100	5,447,800
Year-End Fund Balance	52,600	400
Federal - State Inspection Fund (AHA2113/A.R.S. § 3-499)		Non-Appropriated
<i>Source of Revenue:</i> Fees for inspection of domestic produce imported from Mexico pursuant to a cooperative agreement with the U.S. Department of Agriculture.		
<i>Purpose of Fund:</i> The Arizona Department of Agriculture is the fiduciary of this program, which monitors produce being imported from Mexico at the Nogales Port of Entry in accordance with the cooperative agreement between the department and the U.S. Department of Agriculture.		
Funds Expended	2,779,600	3,090,500
Year-End Fund Balance	2,121,700	2,075,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Fertilizer Materials Trust Fund (AHA2081/A.R.S. § 3-269)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees collected for the inspection of materials and a portion of the fertilizer manufacturer's license fee.		
Purpose of Fund: To regulate fertilizers.		
Funds Expended	254,600	321,900
Year-End Fund Balance	561,200	614,800
Grain Trust Fund (AHA2201/A.R.S. § 3-590)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from an assessment on commercial grain sales.		
Purpose of Fund: To support the Grain Research and Promotion Council's promotion and research activities with public or private organizations. Such activities relate to reducing fresh water consumption, developing new varieties, improving production and handling methods, researching and designing new or improved harvesting and handling equipment, and similar programs.		
Funds Expended	150,300	144,900
Year-End Fund Balance	223,600	177,700
Iceberg Lettuce Trust Fund (AHA2259/A.R.S. § 3-526.06)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from an assessment on iceberg lettuce prepared for market.		
Purpose of Fund: To support research, development, and survey programs concerning varietal development, including programs for pest eradication, production harvesting, handling and hauling from field to market, and other activities deemed appropriate.		
Funds Expended	98,500	100,000
Year-End Fund Balance	64,800	64,800
IGA & ISA Fund (AHA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through an interagency agreement with the Office of Pest Management.		
Purpose of Fund: Funds were used to provide administrative services to the Office of Pest Management during the agency consolidation pursuant to Laws 2016, Chapter 221.		
Funds Expended	56,700	0
Year-End Fund Balance	2,900	0
Indirect Cost Recovery Fund (AHA9000/A.R.S. § 3-107)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: For indirect costs associated with administration of federal grants.		
Funds Expended	273,000	313,300
Year-End Fund Balance	508,300	295,000
Livestock and Crop Conservation Fund (AHA2378/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: Originally, \$2 million annually from the Land Conservation Fund through FY 2011, as established by A.R.S. § 41-511.23. There are no new sources of revenue other than interest payments.		
Purpose of Fund: Continuously appropriated for grants to landowners, as well as to grazing and agricultural lessees of state or federal land, who implement conservation measures.		
Funds Expended	481,300	232,500
Year-End Fund Balance	640,800	417,600
Livestock Custody Trust Fund (AHA2065/A.R.S. § 3-1377)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with monies resulting from fines assessed for and proceeds resulting from the sale of mistreated or stray livestock.		
Purpose of Fund: To enforce any of the provisions of Title 3, relating to agriculture and dairying.		
Funds Expended	61,500	153,100
Year-End Fund Balance	249,900	131,600

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Nuclear Emergency Management Fund (AHA2138/A.R.S. § 26-306.02)		Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station. Laws 2017, Chapter 43 appropriates \$275,012 to the Arizona Department of Agriculture in both FY 2018 and FY 2019.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Laws 2015, Chapter 132 appropriated \$198,434 from the General Fund in FY 2017 to be deposited into the fund. The FY 2017 General Fund expenditures are not displayed to avoid double counting of appropriated funds. Laws 2017, Chapter 43 establishes the fund as an appropriated fund with fees directed to the Nuclear Emergency Management Fund rather than the General Fund.		
Funds Expended	0	275,000
Year-End Fund Balance	21,900	0
Pest Management Trust Fund (AHA2050/A.R.S. § 3-3604)		Non-Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of professional pest control companies and applicators of structural pesticides.		
Purpose of Fund: To examine, license, inspect, and regulate professional pest control companies and applicators of structural pesticides.		
Funds Expended	1,492,300	1,600,000
Year-End Fund Balance	2,812,700	2,821,900
Pesticide Trust Fund (AHA2051/A.R.S. § 3-350)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from a portion of pesticide registration fees.		
Purpose of Fund: To regulate pesticides.		
Funds Expended	313,100	334,300
Year-End Fund Balance	656,400	730,100
Protected Native Plant Trust Fund (AHA2298/A.R.S. § 3-913)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from permits issued for the removal or salvage of protected native plants.		
Purpose of Fund: For the protection of native plants.		
Funds Expended	78,900	83,800
Year-End Fund Balance	36,700	21,300
Seed Law Trust Fund (AHA2064/A.R.S. § 3-234)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from seed dealers' and labelers' license fees and penalties.		
Purpose of Fund: To regulate seeds, including all agricultural, vegetable, and ornamental plant seed, transported or offered for sale in this state.		
Funds Expended	54,000	61,400
Year-End Fund Balance	236,900	270,300

Arizona Health Care Cost Containment System

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,326.3	2,326.3	2,326.3
Personal Services	40,049,800	45,187,500	45,187,500
Employee Related Expenditures	16,199,200	18,243,600	17,210,500
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	20,998,000
Equipment	820,900	560,600	560,600
OPERATING SUBTOTAL	93,633,700	96,860,300	95,827,200
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	77,625,400	88,874,500	88,874,500
Proposition 204 - AHCCCS Administration	15,098,800	12,908,400	12,760,600
Proposition 204 - DES Eligibility	39,238,700	44,358,700	44,358,700
Proposition 206 - Network Adequacy Report	0	200,000	0
Medicaid Services			
Traditional Medicaid Services	4,765,329,900	5,052,920,500	5,212,994,900
Proposition 204 Services	3,375,959,800	3,561,594,500	4,068,562,200
Adult Expansion Services	510,785,500	561,733,000	578,087,900
Children's Rehabilitative Services	265,070,700	270,673,900	324,236,800
Comprehensive Medical and Dental Program	172,456,000	217,719,100	202,755,700
KidsCare Services	23,736,900	111,961,100	82,303,300
ALTCS Services	1,418,473,300	1,544,082,800	1,597,438,000
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	78,680,900	78,846,900	77,646,900
Supported Housing	5,237,800	5,324,800	5,324,800
Crisis Services	16,332,600	16,391,300	16,391,300
Hospital Payments			
Disproportionate Share Payments	7,405,100	5,087,100	5,087,100
DSH Payments - Voluntary Match	5,060,000	18,920,200	21,705,900
Rural Hospitals	22,645,800	22,650,000	22,650,000
Graduate Medical Education	224,475,700	338,922,100	274,684,900
Safety Net Care Pool	96,756,800	75,000,000	0
Targeted Investments Program	0	0	70,000,000
AGENCY TOTAL	11,214,003,400	12,125,029,200	12,801,690,700
FUND SOURCES			
General Fund	1,696,148,600	1,775,264,100	1,859,238,700
<u>Other Appropriated Funds</u>			
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	88,023,200
Prescription Drug Rebate Fund - State	113,740,000	145,691,200	148,457,900
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
SUBTOTAL - Other Appropriated Funds	234,231,900	361,527,400	328,494,100
SUBTOTAL - Appropriated Funds	1,930,380,500	2,136,791,500	2,187,732,800

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
Expenditure Authority Funds			
County Funds	300,633,300	314,132,800	316,931,300
Delivery System Reform Incentive Payment Fund	0	0	21,773,100
Federal Medicaid Authority	7,929,709,600	8,636,179,300	9,174,166,000
Hospital Assessment Fund	238,267,200	286,512,600	290,643,900
Nursing Facility Provider Assessment Fund	24,564,600	32,989,400	32,989,400
Political Subdivision Funds	115,294,000	133,152,900	102,023,400
Prescription Drug Rebate Fund - In Lieu of Federal Funds	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	79,000,000	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	9,988,237,700	10,613,957,900
SUBTOTAL - Appropriated/Expenditure Authority Funds	11,214,003,400	12,125,029,200	12,801,690,700
Other Non-Appropriated Funds	91,269,200	106,074,900	99,730,500
Federal Funds	112,791,400	168,049,200	167,489,500
TOTAL - ALL SOURCES	11,418,064,000	12,399,153,300	13,068,910,700

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.

Summary

AHCCCS' FY 2019 General Fund spending increases by \$83,974,600, or a 4.7% increase from FY 2018. This amount includes:

- \$80,763,200 in formula adjustments.
- \$(17,095,500) to transfer behavioral health service funding of the developmentally disabled population to the Department of Economic Security as part of integration of care in FY 2019.
- \$20,306,900 in other adjustments.

AHCCCS' FY 2019 Hospital Assessment spending increases by \$4,131,300, or a 1.4% increase. This increase is primarily due to resumption of a federal health insurer fee and decreases in tobacco tax collections available to offset the Hospital Assessment.

As part of the Baseline's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$128,541,500 in FY 2020 above FY 2019 and by \$134,840,000 in FY 2021 above FY 2020. (See the *Other Issues* section for more information.)

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

Table 1

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

Formula Adjustments

FY 2019 Caseload Growth	\$ 40
FY 2019 3.5% Capitation Rate Increase	52
FY 2019 Federal Match Rate Increase	(14)
Tobacco Tax Collections Decrease	5
Prescription Drug Rebate Fund Increase	(3)
Subtotal ^{1/}	\$ 81

Integration of Care

Transfer to Department of Economic Security	\$ (17)
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Other Adjustments

Restore Health Insurer Fee	\$ 20
Proposition 206 Rate Increase	2
Remove Health Insurance Adjustment	(0)
Transfer to Department of Health Services	(1)
Subtotal ^{1/}	\$ 20

Total Spending Change **\$ 84**

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

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, a decrease in tobacco tax collections, and an increase in drug rebate collections.

The Baseline includes a net increase of \$80,763,200 in General Fund appropriations in FY 2019 for these adjustments.

FY 2019 Caseload Growth

Formula adjustments include 2.0% caseload growth for most AHCCCS populations. Adjustments also include growth of 1.5% for members in the Children’s Rehabilitative Services program and 5.0% for seriously mentally ill members. FY 2019 caseload changes are expected to result in a General Fund increase of \$40,156,400 in FY 2019. Caseloads are shown in *Table 2*.

FY 2019 3.5% Capitation Rate Increase

In comparison to caseload growth rates which vary by population, capitation rate adjustments are assumed to be 3.5% above FY 2018 across all programs. The Baseline assumes the 3.5% capitation rate increase will result in an increase of \$51,933,600 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:

- 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 \$(13,517,800) in General Fund spending to reflect savings from the regular federal rate increase.

Tobacco Tax Collections Decrease

The Baseline 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 Baseline includes an increase of \$2,766,700 from the state portion of the Prescription Drug Rebate Fund (PDRF - State) and a corresponding \$(2,766,700) decrease from the General Fund in FY 2019 for a projected increase in rebate collections. Federal health care legislation requires

Table 2

JLBC Forecasted Member Months ^{1/}

Population ^{2/3/}	June 2017	June 2018	June 2019	'18-'19% Change
Traditional	1,062,524	1,070,794	1,092,210	2.0%
Prop 204 Childless Adults	317,135	323,478	329,947	2.0
Other Proposition 204	194,261	196,035	199,956	2.0
Adult Expansion ^{4/}	82,228	83,873	85,550	2.0
KidsCare	21,050	34,122	34,804	2.0
CMDP	15,874	15,874	16,191	2.0
ALTCs - Elderly & Physically Disabled ^{5/}	29,063	29,644	30,237	2.0
Emergency Services	121,105	124,017	126,498	2.0
Total Member Months	1,843,240	1,877,837	1,915,393	2.0%

- ^{1/} The figures represent June 1 estimates.
- ^{2/} The Children’s Rehabilitative Services program is included in the Traditional, Other Proposition 204, KidsCare, CMDP, and ALTCs populations.
- ^{3/} 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.)
- ^{4/} Parents and Childless Adults 100%-133% of the federal poverty level (FPL).
- ^{5/} The ALTCs program funded in AHCCCS. In addition, approximately 31,300 people receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program as of December 1, 2017.

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 Baseline includes a \$(9,043,500) ex-appropriation from the General Fund in FY 2018 associated with lower-than-budgeted capitation rates and enrollment for the Traditional population. In addition, the Baseline includes a \$75,703,600 supplemental increase of Expenditure Authority in FY 2018. The increase to Expenditure Authority largely funds provider payments under the Targeted Investments Program and Access to Professional Services Initiative and higher-than-budgeted behavioral health services capitation rates in FY 2018. (See the *Other Issues* section for more information.)

Integration of Care

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 most populations that cover the full spectrum of physical and behavioral health services.

To reflect these new contracts, the Baseline 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). In addition, the Baseline transfers \$(17,095,500) from the General Fund from the AHCCCS budget to the Department of Economic Security (DES) to fund behavioral health services for the Developmental Disabilities (DD) program under a combined appropriation for physical and behavioral health services.

The RBHAs will continue to cover behavioral health services in FY 2019 for foster children enrolled in CMDP and persons with a serious mental illness (SMI), and will continue to administer crisis services, state-only funded behavioral health services, and non-Medicaid federal funding. AHCCCS is currently planning to integrate physical health and behavioral health services for CMDP children under a single plan administered by the Department of Child Safety (DCS) in FY 2020.

AHCCCS has further plans to integrate care for approximately 6,500 members that are dually eligible for the Children Rehabilitative Services (CRS) program and the DD program or CMDP. Currently, these clients receive physical health and behavioral health services related to their CRS condition from the CRS contractor, and receive all other physical health services from the subcontracted DD acute care plan or the CMDP acute plan administered by DCS. Coverage of services related to CRS conditions will be shifted to DES' subcontracted health plan for DD members and to DCS' integrated CMDP plan for foster children in FY 2019.

Other Adjustments

The Baseline includes a net increase of \$20,306,900 to the General Fund in FY 2019 for 4 other adjustments. These adjustments include restoring a federal health insurer fee, provider rate increases resulting from Proposition 206, removal of one-time funding for a health insurance adjustment, and a transfer to the Department of Health Services.

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 Baseline includes an increase of \$19,957,000 from the General Fund in FY 2019 for reimbursement of the fee.

Proposition 206 Rate Increase

The Baseline includes an increase of \$1,946,700 from the General Fund and \$11,562,600 in Total Funds in FY 2019 for Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled provider rate increases associated with minimum wage provisions of Proposition 206. 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. This adjustment was funded as part of the FY 2018 budget's 3-year spending plan.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(396,800) from the General Fund and \$(1,180,900) in Total Funds in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions Section.)*

Transfer to Department of Health Services

The Baseline transfers \$1,200,000 in General Fund appropriation from AHCCCS' Non-Medicaid Seriously Mentally Ill line to the Department of Health Services (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 Baseline directly appropriates the funding to DHS in FY 2019. *(See the Other Issues section in DHS narrative for additional information.)*

Operating Budget

The Baseline includes \$95,827,200 and 1,013.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$29,724,100
Children's Health Insurance Program (CHIP) Fund	5,719,900
Prescription Drug Rebate Fund (PDRF) - State	660,100
Federal Medicaid Authority (FMA)	59,723,100

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,033,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(346,800)
CHIP Fund	(7,200)
PDRF - State	(800)
Federal Medicaid Authority	(678,300)

(Please see the Technical Budget Assumptions section.)

Administration

DES Eligibility

The Baseline includes \$88,874,500 and 885 FTE Positions in FY 2019 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

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

These amounts are unchanged from FY 2018.

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

Proposition 204 - AHCCCS Administration

The Baseline includes \$12,760,600 and 128 FTE Positions in FY 2019 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,073,800
PDRF - State	60,800
Federal Medicaid Authority	8,626,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(147,800) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

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

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

Medicaid Services

AHCCCS oversees acute care, behavioral health services, long term care services, and the Children’s Rehabilitative Services program 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 Baseline includes \$5,212,994,900 in FY 2019 for Traditional Medicaid Services. This amount consists of:

General Fund	1,175,029,700
County Funds	49,159,100
Political Subdivision Funds	7,000,300
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	3,259,326,800

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$187,124,400 in FY 2019 for formula adjustments. This amount consists of:

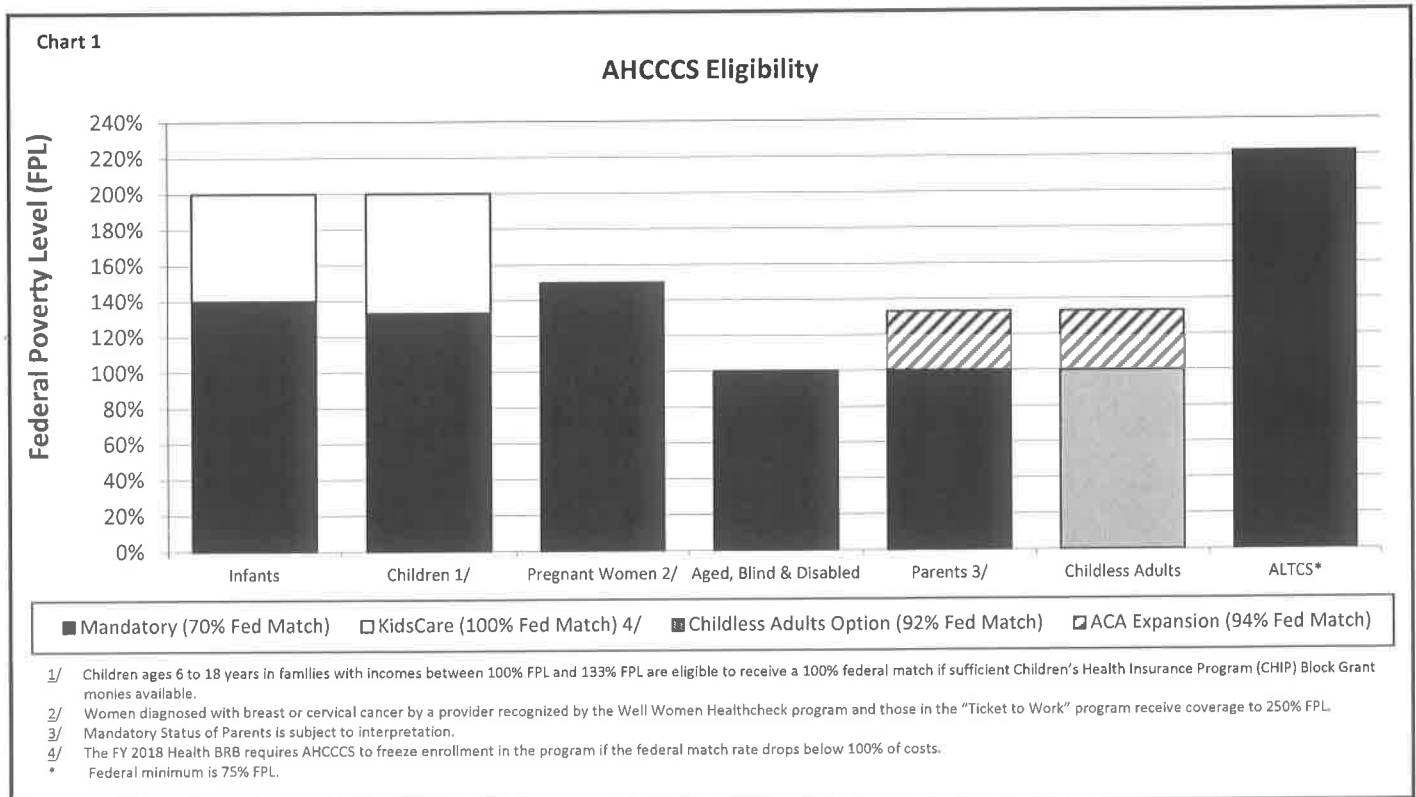
General Fund	47,488,200
County Funds	(300,500)
TTHCF - Medically Needy Account	(4,957,700)
Federal Medicaid Authority	144,894,400

The adjustments include:

- 2.0% enrollment growth.
- An increase in the federal match rate from 69.73% to 69.83%.
- 3.5% 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 Baseline includes a \$2,967,600 increase from PDRF - State for additional rebate collections and a corresponding decrease of \$(2,967,600) from the General Fund in FY 2019. The Baseline 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.



Restore Health Insurer Fee

The Baseline includes an increase of \$57,388,700 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

General Fund	16,537,800
Federal Medicaid Authority	40,850,900

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

Shift Acute CMDP Funding

The Baseline includes a decrease of \$(51,169,600) in FY 2019 to shift acute care funding for the CMDP population to the CMDP 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 DD Behavioral Health Funding

The Baseline includes a decrease of \$(56,472,000) in FY 2019 to transfer funding of behavioral health services for the Developmentally Disabled population to the Department of Economic Security to reflect AHCCCS' plans for integration of care. This amount consists of:

General Fund	(17,095,500)
Federal Medicaid Authority	(39,376,500)

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

APSI Payments

The Baseline includes an increase of \$23,202,900 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	7,000,300
Federal Medicaid Authority	16,202,600

(See the Other Issues 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 Baseline 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 Baseline includes \$4,068,562,200 in FY 2019 for Proposition 204 Services. This amount consists of:

General Fund	143,983,800
Hospital Assessment Fund	261,621,900
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	3,518,329,600

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$446,821,500 in FY 2019 for formula adjustments. This amount consists of:

General Fund	33,643,200
Hospital Assessment Fund	(5,023,800)
Tobacco Settlement Litigation Fund	8,000,000
TPTF - Emergency Health Services Account	(1,278,200)
TPTF - Proposition 204 Protection Account	(2,684,100)
Federal Medicaid Authority	414,164,400

These adjustments include:

- 2.0% 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%.
- 3.5% capitation rate increase.
- \$8,000,000 increase from the Tobacco Litigation Settlement Fund for higher-than-expected settlement payments and a corresponding \$(8,000,000) Hospital Assessment Fund decrease.
- \$(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.

Restore Health Insurer Fee

The Baseline 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	5,921,800
Federal Medicaid Authority	38,198,000

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

APSI Payments

The Baseline includes an increase of \$15,247,800 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	1,931,900
Federal Medicaid Authority	13,315,900

(See the Other Issues 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 Baseline 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 Baseline includes \$578,087,900 in FY 2019 for Adult Expansion Services. This amount consists of:

General Fund	6,631,400
Hospital Assessment Fund	29,022,000
Political Subdivision Funds	123,800
Federal Medicaid Authority	542,310,700

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$7,197,500 in FY 2019 for formula adjustments. This amount consists of:

General Fund	2,346,700
Hospital Assessment Fund	2,886,200
Federal Medicaid Authority	1,964,600

These adjustments include:

- 2.0% enrollment growth in FY 2019.
- A decrease in the federal match rate from 94.5% in FY 2018 to 93.5% in FY 2019.
- 3.5% capitation rate increase in FY 2019.

Restore Health Insurer Fee

The Baseline 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	347,100
Federal Medicaid Authority	6,890,200

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

APSI Payments

The Baseline includes an increase of \$1,904,600 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	123,800
Federal Medicaid Authority	1,780,800

(See the Other Issues 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 Baseline 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 Baseline includes \$324,236,800 in FY 2019 for Children's Rehabilitative Services (CRS). This amount consists of:

General Fund	94,316,200
Political Subdivision Funds	3,260,400
Federal Medicaid Authority	226,660,200

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$35,061,900 in FY 2019 for formula adjustments. This amount consists of:

General Fund	10,300,700
Federal Medicaid Authority	24,761,200

These adjustments include:

- 1.5% enrollment growth in FY 2019.
- An increase in the federal match rate from 69.73% to 69.83%.
- FY 2018 capitation rates that are 12.9% greater-than-budgeted amounts.
- 3.5% capitation rate increase in FY 2019.

Restore Health Insurer Fee

The Baseline includes an increase of \$7,694,200 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

General Fund	2,075,700
Federal Medicaid Authority	5,618,500

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

APSI Payments

The Baseline includes an increase of \$10,806,800 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

Political Subdivision Funds	3,260,400
Federal Medicaid Authority	7,546,400

(See the *Other Issues* 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 Baseline includes \$202,755,700 in FY 2019 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	61,070,000
Federal Medicaid Authority	141,685,700

FY 2019 adjustments are as follows:

Shift Acute CMDP Funding

The Baseline 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.)

Formula Adjustments

The Baseline includes a decrease of \$(66,133,000) in FY 2019 for formula adjustments. This amount consists of:

General Fund	(20,139,700)
Federal Medicaid Authority	(45,993,300)

These adjustments include:

- Revised FY 2018 enrollment projections that are (8.7)% lower than budgeted amounts.
- 2% enrollment growth in FY 2019.
- Increase in the federal match rate from 69.73% to 69.83%.
- 3.5% capitation rate increase in FY 2019.

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 Baseline funding in FY 2019, 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 Baseline 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 Baseline includes \$82,303,300 from the Children's Health Insurance Program (CHIP) Fund in FY 2019 for KidsCare Services. FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes a decrease of \$(29,711,200) 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 in FY 2019.
- 3.5% capitation rate growth in FY 2019.

Restore Health Insurer Fee

The Baseline includes an increase of \$53,400 from the CHIP Fund in FY 2019 to restore payment of the ACA health insurer fee. *(See the Restore Health Insurer Fee section for additional information.)*

Background – The KidsCare program, also referred to as the Children's Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 200% FPL, but above the levels required for the regular AHCCCS program. Families of KidsCare members are charged a monthly premium of \$10 to \$70, depending on level of family income and number of children enrolled in the program.

Following a temporary lapse in CHIP funding after federal fiscal year 2017, federal funding was retroactively extended the program for October 2017 to March 2018. The Baseline assumes that federal funding will be further extended at a later date.

An enrollment freeze was instituted for the program on January 1, 2010. Laws 2016, Chapter 112 required

AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the program. AHCCCS resumed enrollment in the program on September 1, 2016.

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

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

ALTCs Services

The Baseline includes \$1,597,438,000 in FY 2019 for ALTCs services. This amount consists of:

General Fund	197,734,600
County Funds	267,772,200
PDRF - State	7,578,400
PDRF - In Lieu of Federal Funds	36,422,000
Nursing Facility Provider Assessment Fund	32,989,400
Federal Medicaid Authority	1,054,941,400

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$38,523,500 in FY 2019 for formula adjustments. This amount consists of:

General Fund	10,173,800
County Funds	1,122,300
Federal Medicaid Authority	27,227,400

These adjustments include:

- 2.0% enrollment growth in FY 2019.
- An increase in the federal match rate from 69.73% to 69.83%.
- 3.5% capitation rate increase in FY 2019.

Proposition 206 Rate Increase

The Baseline 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 Proposition 206 Rate Increase section for additional information.)

Restore Health Insurer Fee

The Baseline 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 Restore Health Insurer Fee 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.

Non-Medicaid Behavioral Health Services

Non-Medicaid Seriously Mentally Ill Services

The Baseline 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 Baseline 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 Baseline replaces this footnote with a direct appropriation of funding to DHS. (See Other Issues section in the DHS narrative for additional information.)

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

In January 2014, an exit agreement from the litigation was signed by Arizona's Governor, Maricopa County, and the plaintiffs in the case. The Maricopa County Superior Court approved the agreement in February 2014. The exit agreement requires the state to begin meeting requirements by June 2016 for providing assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness. (Please see the Behavioral Health footnotes for more information on service targets established by the exit agreement, and see the FY 2015 Appropriations Report for a history of the case.)

Supported Housing

The Baseline includes \$5,324,800 from the General Fund in FY 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 Baseline 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.

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

The Baseline does not reduce the state's total DSH payments for the scheduled federal reductions described above. As in past years, Congress may choose to further delay or modify the reductions. Given this uncertainty, the Baseline assumes scheduled federal reductions to DSH payments will be delayed.

Increase in Uncompensated Care Payments

Under the Baseline, 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.

Under a scenario in which scheduled federal DSH reductions are implemented, projected eligible funding would drop to \$147,510,700 in FY 2018 and \$141,983,400 in FY 2019 (see *estimates for Baseline and DSH Reduction scenarios in Table 3*).

General Fund Distributions

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

The FY 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. Under the assumption that federal reductions to DSH payments will be delayed, the Baseline 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 Baseline 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.

Under federal DSH reductions, Federal Funds drawn down for MIHS and ASH would drop to \$94,298,600 in FY 2019. If implemented, the federal DSH cuts could reduce Baseline General Fund revenue by \$(834,100) in FY 2019. Under this scenario, the General Fund appropriation for MIHS could alternatively be reduced by \$(834,100) in FY 2019.

MIHS Distribution

While the state retains \$75,254,400 of the MIHS federal match as General Fund revenue, the Baseline includes an appropriation of \$4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line 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 Baseline 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

Table 3

Disproportionate Share Hospital Payments

	FY 2018		FY 2019	
	Baseline Scenario ^{1/}	DSH Reduction Scenario	Baseline Scenario	DSH Reduction Scenario
Eligible Funding ^{2/}				
MIHS - CPE	\$113,818,500	\$ 113,818,500	\$113,818,500	\$ 112,623,700
ASH - CPE	28,474,900	28,474,900	28,474,900	28,474,900
Private Hospitals	884,800	884,800	884,800	884,800
DSH Voluntary Match ^{3/}	<u>18,920,200</u>	<u>4,332,500</u>	<u>21,705,900</u>	<u>0</u>
Total Funding	\$162,098,400	\$147,510,700	\$164,884,100	\$141,983,400
Net Distribution - Disproportionate Share Payments				
General Fund				
Retain FF of CPE (via MIHS)	\$ 75,345,400	\$ 75,345,400	\$ 75,254,400	\$ 74,420,300
Retain FF of CPE (via ASH)	<u>19,901,100</u>	<u>19,901,100</u>	<u>19,878,300</u>	<u>19,878,300</u>
Subtotal - General Fund	\$ 95,246,500	\$ 95,246,500	\$ 95,132,700	\$ 94,298,600
Other Entities				
State MIHS	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>
Total DSH Distributions	\$100,333,600	\$ 100,333,600	\$ 100,219,800	\$ 99,385,700
Voluntary Match	\$ 18,920,200	\$ 4,332,500	\$ 21,705,900	\$ 0
Total Distributions	\$119,253,800	\$104,666,100	\$ 121,925,700	\$ 99,385,700

^{1/} The Baseline revises the FY 2018 amounts of eligible funding and distributions in the FY 2018 budget.

^{2/} Amounts include state and federal match funding.

^{3/} The Baseline continues a footnote that appropriates any payments in excess of \$21,705,900 for DSH Voluntary Payments in FY 2019.

match payments. The Baseline 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 Baseline continues a prior year footnote that appropriates any additional payments in excess of \$21,705,900. Under federal payment reductions, funding available for this line would decrease to \$4,332,500 in FY 2018 and \$0 in FY 2019.

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 2016, there were 40 private hospitals that received DSH payments. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

Disproportionate Share Payments

The Baseline 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 Baseline 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.

DSH Payments - Voluntary Match

The Baseline 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 Baseline 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 earlier, the FY 2019 Baseline 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 Baseline 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 Baseline continues a footnote from the FY 2018 budget that appropriates any additional payments above \$21,705,900 in FY 2019. The Baseline additionally continues provisions from the FY 2018 Health BRB that give priority to eligible rural hospitals when allocating voluntary match DSH payments, and continues to permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed \$113,818,500 in FY 2019. In FY 2016 there were 7 hospitals that received voluntary match DSH payments.

Rural Hospitals

The Baseline includes \$22,650,000 in FY 2019 for Rural Hospitals (which includes Critical Access Hospitals (CAH)). This amount consists of:

General Fund	6,838,000
Federal Medicaid Authority	15,812,000

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline 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.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The CAH program provides increased reimbursement to small rural hospitals that are federally designated as CAHs. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2017, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from CAH.

Graduate Medical Education

The Baseline 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 Baseline 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 Baseline 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, 14 hospitals received a total of \$224,475,700 for Graduate Medical Education.

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

Safety Net Care Pool

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

Decreased Funding

The Baseline 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 Baseline continues a prior year footnote that appropriates any additional payments in excess of \$0 in FY 2019.

Targeted Investments Program

The Baseline 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 Baseline includes an increase of \$70,000,000 in FY 2019 to reflect resources authorized by the federal government for the Targeted Investments Program. This amount consists of:

DSRIP Fund	21,773,100
Federal Medicaid Authority	48,226,900

The FY 2017 Health BRB established the non-appropriated DSRIP Fund for state costs of the program. In FY 2018, the fund is displayed as non-appropriated. The Baseline converts the DSRIP Fund to expenditure authority under the budget structure in 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

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.

The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility AND Proposition 204 Services and Medicaid Behavioral Health—~~Proposition 204 Services~~ line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (The Baseline consolidates funding for Proposition 204 acute and behavioral health services into the Proposition 204 Services line in FY 2019.)

Medical Services and Behavioral Health Services

Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee.

The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 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 implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee.

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.

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.

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.

On or before ~~December 31, 2018,~~ and 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. *(The Baseline reduces the frequency of this report from semi-annual to annual.)*

Long Term Care

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.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2019 nonfederal costs of providing long term care system services is \$267,772,200. This amount is included in the Expenditure Authority fund source.

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.

Payments to Hospitals

The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2019 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals.

Any monies received for Disproportionate Share 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.

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, and Safety Net Care Pool, TRADITIONAL SERVICES, PROPOSITION 204 SERVICES, ADULT EXPANSION SERVICES

AND CHILDREN'S REHABILITATIVE SERVICES line items are included in the Expenditure Authority fund source. *(Beginning in FY 2018, the Baseline appropriates expenditure authority for payments to qualified providers under the Access to Professional Services Initiative.)*

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.

Any monies received in excess of \$0 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 increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Other

~~On or before January 5, 2019~~ June 30, 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. ~~On June 30, 2019, the Administration shall report the same information for all of FY 2019.~~ *(The Baseline reduces the frequency of this report from semi-annual to annual.)*

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.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote on developing a FY 2018 provider rate report.

The Baseline would delete the footnote requiring AHCCCS to make a transfer to DHS for medications at the Arizona State Hospital and instead directly appropriate the \$1,200,000 to DHS in FY 2019.

STATUTORY CHANGES

The Baseline would:

Rates and Services

- As session law, continue 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, set the FY 2019 county Arizona Long Term Care System (ALTCs) contributions at \$267,772,200.
- 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.
- As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.
- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties 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 session law, continue to establish FY 2019 disproportionate share (DSH) distributions to the Maricopa Special Health Care 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.
- 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.

Erroneous Payments

- 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.

Available Funding

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

Reports

- As session law, continue to require AHCCCS 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, 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.

Other Issues

This section includes information on the following topics:

- FY 2018 Adjustments
- Long-Term Budget Impacts
- Federal Funding for American Indians
- Prescription Drug Rebate Fund Balance Option
- Waiver Submittal
- Access to Professional Services Initiative
- SMI Funding
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2018 Adjustments

The Baseline includes a net supplemental increase of \$66,660,100 in FY 2018. *Table 4* below shows the adjustments included in the Baseline by fund source. The summary table at the front of the agency narrative has not been updated to reflect the recommended FY 2018 adjustments.

Table 4 AHCCCS FY 2018 Adjustments	
General Fund	\$(9,043,500)
Expenditure Authority	
Federal Funds	\$49,577,700
Political Subdivision Funds	8,973,200
Tobacco Settlement Litigation Fund	8,000,000
Hospital Assessment	2,808,300
Delivery System Reform Incentive Payments Fund	<u>6,344,400</u>
<i>Subtotal</i>	<i>\$75,703,600</i>
Total Funds	\$66,660,100

General Fund

The Baseline includes a \$(9,043,500) ex-appropriation from the General Fund in FY 2018 associated with lower-than-budgeted growth in acute care capitation and Traditional enrollment. While the enacted budget included 3.0% in acute care capitation growth, actual rates grew 1.0%. The FY 2019 Baseline also projects (11,006) fewer Traditional population enrollees in June 2018 than projected under the FY 2018 budget.

Expenditure Authority

The Baseline includes a FY 2018 supplemental increase of \$75,703,600 in Expenditure Authority. The supplemental includes \$56,076,400 for payments to providers through the Targeted Investments Program and Access to Professional Services Initiative. This amount consists of \$40,758,800 in Federal Funds, \$8,973,200 in Political Subdivision Funds, and \$6,344,400 from the Delivery System Reform Incentive Payments Fund. (See the *Targeted Investments Program* line item and the *Access to Professional Services Initiative* section in *Other Issues* for additional information.)

The remaining \$19,627,200 supplemental amount funds greater-than-budgeted formula growth in FY 2018. That amount includes \$8,818,900 in Federal Funds, \$8,000,000 from the Tobacco Settlement Litigation Fund, and \$2,808,300 from the Hospital Assessment Fund. This overall increase primarily funds greater-than-budgeted increases in capitation rates for behavioral health services and the Children's Rehabilitative Services program. Growth in these FY 2018 capitation rates was driven by increased utilization of services and programmatic changes.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS's General Fund spending by \$128.5 million in FY 2020 above FY 2019 and by \$134.8 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 3.5% in FY 2020 and FY 2021.
- A slight decrease in the federal match rate (from 69.83% in FY 2019 to 69.81% in FY 2020 and FY 2021).
- Continued 100% federal match rates for KidsCare and Child Expansion populations.
- 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.
- 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.

Under federal law, the 100% federal match rate for KidsCare and Child Expansion populations is scheduled to

expire and decrease to a projected rate of 78.87% on October 1, 2019. The FY 2018 Health BRB requires AHCCCS to freeze enrollment in KidsCare if the program's federal match rate drops below 100% of costs.

The Baseline continues the 100% match rate for KidsCare and Child Expansion populations in all future years. All costs of these populations are projected to be funded through Arizona's federal allotment of Children's Health Insurance Program (CHIP) funding. As a result, the Baseline assumes enrollment in the KidsCare program will not be frozen.

In the event the 100% federal match rate does expire on October 1, 2019, General Fund costs would exceed Baseline estimates by \$38.7 million in FY 2020 and by a further \$9.8 million in FY 2021. These amounts represent the state costs of funding the KidsCare population under a freeze and the Child Expansion population at a 78.87% federal match rate. Federal costs of these populations would continue to be funded from Arizona's federal allocation of CHIP funding. 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.

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 Balance Option

The FY 2019 Baseline is projected to have a cash balance shortfall. In addition, there may be legislative interest in retaining some of the \$90 million in one-time FY 2018 spending deleted in the FY 2019 Baseline. To address these issues, the Legislature could consider making a one-time transfer from the state portion of the Prescription Drug Rebate Fund (PDRF - State) to the General Fund in FY 2019.

AHCCCS reported a balance of \$78.6 million in the fund at the beginning of FY 2018. Under Baseline projections of ongoing fund revenues and disbursements, the PDRF - State balance is estimated to total \$72.8 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
Baseline 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
Projected Ending Balance	\$ 72,821,700	\$ 72,821,700

Waiver Submittal

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.

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.

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 beginning in FY 2018.

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 Baseline includes \$36.1 million in FY 2018 and \$51.2 million in FY 2019 to fund state and federal costs of the program. The state match for the program would be provided through voluntary contributions from political subdivisions. The federal match would be funded at the regular match rate (69.83% in FY 2019). As of this writing, the federal government has not approved the program.

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.

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	\$156,490,500	\$362,492,600	\$ 518,983,100	21,653
Proposition 204	83,232,200	414,795,400	498,027,600	20,647
Adult Expansion	<u>1,911,800</u>	<u>27,501,000</u>	<u>29,412,800</u>	<u>1,219</u>
Total ^{1/}	\$241,634,500	\$804,789,000	\$1,046,423,500	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.

In FY 2019, an estimated \$30.7 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 \$24.5 million is federal matching funds.

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 \$8,539,200 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 \$13,931,200 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 \$13,097,900 in relief.

In FY 2019, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$35,568,300 in relief to 10 counties.

Program Components

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

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2019, the average capitation rate for acute care, behavioral health services, and long term care is expected to be approximately \$483 per member per month (or \$5,796 annually). Of that amount, an average of \$110 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-

Table 7

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	\$87,300	\$642,500
Cochise	224,700	2,214,800	162,700	5,241,100	230,900	2,214,800	162,700	5,273,600
Coconino	221,700	742,900	160,500	1,974,000	227,800	742,900	160,500	1,929,300
Gila	91,100	1,413,200	65,900	2,208,500	93,600	1,413,200	65,900	2,232,500
Graham	64,700	536,200	46,800	1,561,800	66,500	536,200	46,800	1,573,900
Greenlee	16,600	190,700	12,000	28,000	17,100	190,700	12,000	48,700
La Paz	34,500	212,100	24,900	526,000	35,400	212,100	24,900	597,400
Maricopa	0	18,783,100	0	165,477,400	0	18,482,600	0	169,991,700
Mohave	258,800	1,237,700	187,400	8,350,800	266,000	1,237,700	187,400	8,454,800
Navajo	169,600	310,800	122,800	2,721,500	174,300	310,800	122,800	2,659,900
Pima	1,541,300	14,951,800	1,115,900	40,974,000	1,583,900	14,951,800	1,115,900	41,628,200
Pinal	301,600	2,715,600	218,300	15,344,200	309,900	2,715,600	218,300	13,814,100
Santa Cruz	71,300	482,800	51,600	2,040,600	73,200	482,800	51,600	2,078,400
Yavapai	284,900	1,427,800	206,200	8,840,500	292,800	1,427,800	206,200	8,306,100
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>183,900</u>	<u>8,541,100</u>
Subtotal	\$3,655,300	\$46,813,400	\$2,646,200	\$264,673,200	\$3,756,200	\$46,512,900	\$2,646,200	\$267,772,200
Total				\$317,788,100				\$320,687,500

mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on 75.0% of the estimated drug costs.

Tobacco Master Settlement Agreement

The Baseline 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 Baseline allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system.

Tobacco Tax Allocations

The Baseline 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>		
<u>AHCCCS</u>		
AHCCCS State Match Appropriation	\$ <u>72,042,700</u>	\$ <u>72,998,200</u>
Total AHCCCS Allocations	\$ 72,042,700	\$ 72,998,200
<u>DHS</u>		
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)		Appropriated
Source of Revenue: County contributions.		
Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.		
Funds Expended	2,672,500	3,655,300
Year-End Fund Balance	890,800	0
Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)		Appropriated
Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.		
Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 200% of the Federal Poverty Level (FPL), which is approximately \$49,200 for a family of 4. Laws 2016, Chapter 112 reopened enrollment in KidsCare, which had been frozen since 2010. KidsCare enrollees are eligible for 100% Federal Financial Participation through FFY 2019, subject to availability of federal appropriations for CHIP.		
Funds Expended	24,779,300	117,688,200
Year-End Fund Balance	2,476,300	0
County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2912)		Expenditure Authority
Source of Revenue: Statutorily prescribed county contributions.		
Purpose of Fund: For the provision of acute medical and long term care services to Arizona Health Care Costs Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars. County Funds received by AHCCCS to provide behavioral health services to persons with a serious mental illness are accounted for separately in the IGA for County Behavioral Health Services Fund.		
Funds Expended	300,633,300	314,132,800
Year-End Fund Balance	0	0
Delivery System Reform Incentive Payment Fund (HCA2130/A.R.S. § 36-2930.04)		EA/Non-Appropriated
Source of Revenue: Monies voluntarily given to AHCCCS from local governments or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To fund incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services through the Targeted Investment Program (TI Program). The projects will be funded with existing state matching monies and intergovernmental transfers (IGTs) from counties and universities. Money in the fund will only include state matching monies from IGTs and certified public expenditure for the TI Program. AHCCCS estimates the program will be associated with \$20.0 million in Total Funds in FY 2018, which consists of \$6.3 million in state matching monies and \$13.7 million in federal matching monies. The \$6.3 million estimated state portion consists of \$2.0 million in IGT funding and \$4.3 million in federal certified public expenditure funding calculated for existing state-funded programs. The state certifies the amount of public expenditures on qualifying state-funded health programs. The federal government then determines what the federal share of funding would have been for the projects if state funds had received a federal match. The federal government then makes available the calculated federal share of certified public expenditures to be used as state matching funds for the TI Program. Due to uncertainty about expected funding and timeline of projects under the program, the FY 2018 budget did not include an appropriation to the fund. The \$6.3 million in state matching monies the agency expects to spend from the fund in FY 2018 is displayed as Non-Appropriated expenditures. Funding amounts are displayed as Expenditure Authority in FY 2019.		
Expenditure Authority Funds Expended	0	0
Non-Appropriated Funds Expended	0	6,344,400
Year-End Fund Balance	0	0
Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)		Non-Appropriated
Source of Revenue: Private donations.		
Purpose of Fund: To be used for the agency's employee recognition program.		
Funds Expended	1,400	1,400
Year-End Fund Balance	4,700	5,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.		
Funds Expended	30,859,600	46,352,600
Year-End Fund Balance	0	0
Federal Funds (HCA2000/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal grant monies.		
Purpose of Fund: To provide federal match for non-appropriated state expenditures. On July 1, 2016, the administration of federal behavioral health grants was transferred from DHS to AHCCCS. The transferred grants include the Block Grant for Substance Abuse Prevention and Treatment (SAPT), which is anticipated to account for \$55,934,700 in expenditures in FY 2018, and the Block Grant for Community Mental Health Services, which is anticipated to account for \$10,503,100 in expenditures in FY 2018.		
Funds Expended	62,906,700	73,096,600
Year-End Fund Balance	776,100	0
Federal Grants - American Recovery and Reinvestment Act (ARRA) (HCA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: Federal Funds to assist Medicaid providers in adopting electronic medical records.		
Funds Expended	19,025,100	48,600,000
Year-End Fund Balance	0	0
Federal Medicaid Authority (HCA2120 Acute/HCA2223 Long Term Care/ A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: For AHCCCS' administrative costs and for the provision of services to eligible Medicaid populations. Any monies received in excess of the FY 2018 budgeted appropriations for the Nursing Facility Provider Assessment, Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2018, including any federal matching monies, are appropriated to the Administration in FY 2018.		
Funds Expended	7,929,709,600	8,636,179,300
Year-End Fund Balance	53,521,000	23,372,000
Hospital Assessment Fund (HCA9692/A.R.S. § 36-2901.09)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days.		
Purpose of Fund: For funding the non-federal share of Proposition 204 services and the adult population who became eligible for AHCCCS services on January 1, 2014.		
Funds Expended	238,267,200	286,512,600
Year-End Fund Balance	28,901,900	15,758,400
Hospital Loan Residency Fund (HCA2532/A.R.S. § 36-2921)		Non-Appropriated
Source of Revenue: Received a \$1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals.		
Purpose of Fund: To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.		
Funds Expended	0	0
Year-End Fund Balance	900,000	900,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: Monies from local governments and state liquor service fees.		
Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers (LARC) to treat substance abuse. In FY 2018, the fund will receive \$58.9 million from Maricopa County, \$3.0 million from Pima County, \$1.0 million from Coconino County, \$0.1 million from the City of Phoenix, and \$0.1 million in Liquor Service Fees from the Department of Liquor Licenses and Control. This fund was transferred from DHS to AHCCCS on July 1, 2016.		
Funds Expended	60,510,600	63,059,800
Year-End Fund Balance	0	0
Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.		
Funds Expended	8,135,100	8,135,100
Year-End Fund Balance	850,500	522,200
Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)		Expenditure Authority
Source of Revenue: Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.		
Purpose of Fund: To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to 1% in administrative expenses incurred by AHCCCS for administering this fund.		
Funds Expended	24,564,600	32,989,400
Year-End Fund Balance	4,829,100	4,836,600
Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)		Expenditure Authority
Source of Revenue: Monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To expand funding for hospitals through supplemental payments and the Access to Professional Services Initiative. Includes agreements for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), and Safety Net Care Pool (SNCP) programs.		
Funds Expended	115,294,000	133,152,900
Year-End Fund Balance	0	0
Prescription Drug Rebate Fund (HCA2546/A.R.S. § 36-2930)		EA/Appropriated
Source of Revenue: Prescription drug rebate collections and interest from prescription drug rebate late payments.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. The federal share of rebates is retained by the state and is used in lieu of federal match funds. Monies in the fund used in lieu of federal match funds are subject to expenditure authority; all other monies are appropriated.		
State Funds Expended	113,740,000	145,691,200
Funds Expended In Lieu of Federal Funds	536,111,500	465,663,000
Year-End Fund Balance	122,004,100	114,817,500
Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)		Non-Appropriated
Source of Revenue: Gaming monies received from the Arizona Benefits Fund.		
Purpose of Fund: For unrecovered trauma center readiness and emergency services costs.		
Funds Expended	22,095,900	24,089,700
Year-End Fund Balance	6,259,600	6,259,600

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		Partially-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. No funding was appropriated to the fund for administrative expenses in FY 2017 or FY 2018. This fund was transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	526,200	3,140,900
Year-End Fund Balance	5,766,200	4,625,300
Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)		Appropriated
Source of Revenue: The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.		
Funds Expended	2,250,200	2,250,200
Year-End Fund Balance	2,777,100	2,777,100
Third Party Liability and Recovery Fund (HCA3791 Acute Care/HCA3019 Long Term Care/A.R.S. § 36-2913)		EA/Non-Appropriated
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members.		
Expenditure Authority Funds Expended	0	194,700
Non-Appropriated Funds Expended	0	1,303,600
Year-End Fund Balance	2,292,100	1,808,800
Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02)		Expenditure Authority
Source of Revenue: Monies received from tobacco companies as part of a lawsuit settlement.		
Purpose of Fund: Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.		
Funds Expended	101,521,700	79,000,000
Year-End Fund Balance	0	0
Tobacco Products Tax Fund - Emergency Health Services Account* (HCA1304/A.R.S. § 36-776)		Appropriated
Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.		
Tobacco Products Tax Fund - Proposition 204 Protection Account* (HCA1303/A.R.S. § 36-778)		Expenditure Authority
Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
Purpose of Fund: To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.		

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
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Tobacco Tax and Health Care Fund* (RVA1306/A.R.S. § 36-771) Non-Appropriated

Source of Revenue: The fund consists of certain tax monies collected on cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco, and all interest earned on these monies.

Purpose of Fund: To AHCCCS for the Medically Needy Accounts (70%), the Arizona Department of Health Services (DHS) for the Health Education Account (23%), the Health Research Accounts (5%), and the State Department of Corrections (DOC) for the Corrections Fund Adjustment Account (2%). Under A.R.S. § 36-775, the amount transferred to the Corrections Fund Account is to reflect only the actual amount needed to offset decreases in the Corrections Fund resulting from lower tax revenues. Any unexpected Corrections Fund Adjustment Account amounts are to be transferred out proportionally to the other 3 accounts. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

Tobacco Tax and Health Care Fund - Medically Needy Account* Partially-Appropriated
(HCA1306/A.R.S. § 36-774)

Source of Revenue: The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account.

Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election. Any monies in this fund used to pay for behavioral health services were transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.

*See Table 8

Arizona Commission on the Arts

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	1,500,000	1,500,000	0
AGENCY TOTAL	1,500,000	1,500,000	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	1,500,000	1,500,000	0
SUBTOTAL - Other Appropriated Funds	1,500,000	1,500,000	0
SUBTOTAL - Appropriated Funds	1,500,000	1,500,000	0
Other Non-Appropriated Funds	1,402,000	1,747,400	1,747,400
Federal Funds	833,000	821,600	821,600
TOTAL - ALL SOURCES	3,735,000	4,069,000	2,569,000

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 Baseline includes no funding from the Budget Stabilization Fund in FY 2019 for deposit into the non-appropriated Arts Trust Fund. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,500,000) from the Budget Stabilization Fund in FY 2019 for the elimination of one-time funding. The FY 2018 General Appropriation Act

(Laws 2017, Chapter 305) appropriated this amount from interest income earned on the Budget Stabilization Fund. Monies in the Arts Trust Fund are used to award grants to organizations with the purpose of advancing and fostering the arts in Arizona. A portion of the funds are statutorily used to provide grants to organizations representing handicapped persons or racial or ethnic minorities and organizations representing rural areas.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arts Special Revenues Fund (HUA2116/A.R.S. § 41-983)		Non-Appropriated
Source of Revenue: Public and private grants, donations, exhibit rentals, admissions, charges for services, and amounts transferred in from the Budget Stabilization Fund in FY 2014, FY 2015, FY 2017, and FY 2018.		
Purpose of Fund: To award grants to arts programs in all areas of the state. The applicant organizations must contribute to each grant awarded by the Arts Commission. Amounts transferred in from the Budget Stabilization Fund are not displayed to avoid double counting of appropriations.		
Funds Expended	237,300	265,000
Year-End Fund Balance	235,300	204,300
Arts Trust Fund (HUA3043/A.R.S. § 41-983.01)		Non-Appropriated
Source of Revenue: An annual report filing fee from domestic and foreign for profit corporations.		
Purpose of Fund: To award grants to organizations with the purpose of advancing and fostering the arts in Arizona. A portion of the funds are to be used to provide grants to: 1) organizations representing handicapped persons, 2) racial or ethnic minorities; and 3) organizations representing rural areas.		
Funds Expended	1,164,700	1,482,400
Year-End Fund Balance	342,500	180,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Budget Stabilization Fund (TRA3034/A.R.S. § 35-144)		Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: Laws 2016, Chapter 117, Section 132 and Laws 2017, Chapter 305, Section 114 transferred \$1,500,000 from the interest income earned on the Budget Stabilization Fund to the Arts Trust Fund in FY 2017 and FY 2018, respectively.		
Funds Expended	1,500,000	1,500,000
Year-End Fund Balance	0	0
Federal Grants (HUA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants from the National Endowment for the Arts.		
Purpose of Fund: To award grants to non-profits, schools and government entities in the state. A state funding match is required.		
Funds Expended	833,000	821,600
Year-End Fund Balance	0	0
State Poet Laureate Fund (HUA2569/A.R.S. § 41-988)		Non-Appropriated
Source of Revenue: Gifts, grants, and donations.		
Purpose of Fund: To pay costs of the State poet laureate.		
Funds Expended	0	0
Year-End Fund Balance	2,500	2,500

Board of Athletic Training

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	35,600
Professional and Outside Services	500	0	0
Travel - In State	1,000	1,200	1,200
Other Operating Expenditures	13,700	19,200	19,200
AGENCY TOTAL	110,700	120,600	119,100

FUND SOURCES

Other Appropriated Funds

Athletic Training Fund	110,700	120,600	119,100
SUBTOTAL - Other Appropriated Funds	110,700	120,600	119,100
SUBTOTAL - Appropriated Funds	110,700	120,600	119,100
TOTAL - ALL SOURCES	110,700	120,600	119,100

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

Operating Budget

* * *

The Baseline includes \$119,100 and 1.5 FTE Positions from the Athletic Training Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,500) from the Athletic Training Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Athletic Training Fund (BAA2583/A.R.S. § 32-4105)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of athletic trainers. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate athletic trainers, and for board administration.		
Funds Expended	110,700	120,600
Year-End Fund Balance	188,300	146,000

Attorney General - Department of Law

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	580.7	580.7	580.7
Personal Services	29,031,700	31,427,500	31,427,500
Employee Related Expenditures	10,533,000	12,375,100	11,808,800
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	9,392,000
Equipment	501,800	118,400	118,400
OPERATING SUBTOTAL	48,149,900	53,973,500	53,407,200
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	677,000	803,100	795,700
Federalism Unit	775,500	1,005,100	995,600
Internet Crimes Against Children Enforcement	728,800	1,250,000	1,250,000
Military Airport Planning	83,200	85,000	85,000
National Mortgage Settlement Distribution	2,344,300	0	0
Risk Management Interagency Service Agreements	8,638,700	9,468,600	9,406,700
Southern Arizona Law Enforcement	1,192,800	1,206,500	1,193,000
State Grand Jury	173,900	181,100	180,100
Tobacco Enforcement	164,400	823,900	816,000
Victims' Rights	3,609,700	3,761,300	3,758,900
AGENCY TOTAL	66,538,200	72,558,100	71,888,200
FUND SOURCES			
General Fund	24,020,200	26,344,200	26,068,500
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	147,800	246,300	244,300
Attorney General Legal Services Cost Allocation Fund	1,931,900	2,080,400	2,080,400
Collection Enforcement Revolving Fund	6,282,000	6,920,900	6,845,200
Consumer Protection - Consumer Fraud Revolving Fund	3,935,900	6,335,600	6,275,700
Court-Ordered Trust Fund	2,344,300	0	0
Interagency Service Agreements Fund	14,995,600	16,500,800	16,308,500
Internet Crimes Against Children Enforcement Fund	632,100	900,000	900,000
Risk Management Revolving Fund	8,638,700	9,468,600	9,406,700
Victims' Rights Fund	3,609,700	3,761,300	3,758,900
SUBTOTAL - Other Appropriated Funds	42,518,000	46,213,900	45,819,700
SUBTOTAL - Appropriated Funds	66,538,200	72,558,100	71,888,200
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	141,344,000	140,674,100

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

Operating Budget

The Baseline includes \$53,407,200 and 446.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$23,380,300
Antitrust Enforcement Revolving Fund	244,300
Attorney General Legal Services Cost Allocation Fund	2,080,400
Collection Enforcement Revolving Fund (CERF)	6,845,200
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	4,548,500
Interagency Service Agreements (ISA) Fund	16,308,500

FY 2019 adjustments are as follows:

Criminal Division Resources

The Baseline 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 will 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 Baseline continues to assume that the agency will use its existing FTE Position authority for these positions.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(566,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(252,900)
Antitrust Enforcement Revolving Fund	(2,000)
CERF	(75,700)
CPCF Revolving Fund	(43,400)
ISA Fund	(192,300)

(Please see the Technical Budget Assumptions section.)

Capital Postconviction Prosecution

The Baseline includes \$795,700 and 6 FTE Positions from the General Fund in FY 2019 for Capital Postconviction Prosecution. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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

Federalism Unit

The Baseline includes \$995,600 and 7 FTE Positions from the CPCF Revolving Fund in FY 2019 for the Federalism Unit. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(9,500) from the CPCF Revolving Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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.

Internet Crimes Against Children Enforcement

The Baseline 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.

At its June 20, 2017 meeting, the JLBC provided a favorable review of the AG's proposed expenditure plan for the \$1,250,000 FY 2018 ICAC appropriation. The expenditure plan included funding for 4 FTE Positions in the Phoenix Police Department that will be full-time staff of AZICAC, 2 FTE Positions within the AG's office that will work exclusively on ICAC-related cases, and equipment, training, and other operational costs of AZICAC.

The FY 2019 amount would not lapse until the end of FY 2020.

Military Airport Planning

The Baseline 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.

Risk Management Interagency Service Agreement

The Baseline includes \$9,406,700 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(61,900) from the Risk Management Revolving Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$1,193,000 and 13 FTE Positions from the General Fund in FY 2019 for Southern Arizona Law Enforcement. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(13,500) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$180,100 and 1.6 FTE Positions from the General Fund in FY 2019 for the State Grand Jury. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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

Tobacco Enforcement

The Baseline includes \$816,000 and 6.6 FTE Positions in FY 2019 for Tobacco Enforcement. These amounts consist of:

General Fund	84,400
CPCF Revolving Fund	731,600

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,900) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(900)
CPCF Revolving Fund	(7,000)

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

In addition to the monies provided in this line item, the budget continues to require AHCCCS to transfer \$1,200,000 to the Attorney General for MSA enforcement. As a result, the budget includes a total of \$2,016,000 for the Attorney General to enforce the MSA in FY 2019.

Victims' Rights

The Baseline includes \$3,758,900 and 6 FTE Positions from the Victims' Rights Fund in FY 2019 for Victims' Rights. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,400) from the Victims' Rights Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

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.

STATUTORY CHANGES

The Baseline would:

- As permanent law, remove 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.
- As permanent law, remove 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.

Other Issues

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. Statute requires the department to annually report to the JLBC on funding sources utilized to pay the charge. The Baseline would remove this requirement from statute. *(Please see Statutory Changes.)*

(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

<u>Agency</u>	<u>Legal Services Charge</u>
Arizona Department of Administration	\$ 127,700
Office of Administrative Hearings	3,000
Commission on the Arts	3,100
Automobile Theft Authority	1,400
Citizens Clean Elections Commission	2,700
State Department of Corrections	2,000
Arizona Criminal Justice Commission	8,700
Arizona Schools for the Deaf and the Blind	100,200
Commission for the Deaf and the Hard of Hearing	4,100
Early Childhood Development and Health Board	47,100
Department of Education	132,000
Department of Emergency and Military Affairs	30,000
Department of Environmental Quality	135,600
Exposition and State Fair Board	20,900
Department of Financial Institutions	1,900
Arizona Department of Forestry and Fire Management	13,400
Department of Gaming	37,300
Department of Health Services	170,000
Arizona Historical Society	700
Department of Housing	19,300
Department of Insurance	10,500
Department of Juvenile Corrections	9,400
State Land Department	2,100
Department of Liquor, Licenses and Control	11,400
Arizona State Lottery Commission	24,800
Arizona State Parks Board	45,800
State Personnel Board	600
Arizona Pioneers' Home	12,100
Commission on Postsecondary Education	1,800
Department of Public Safety	677,400
Radiation Regulation Authority	3,800
Arizona State Retirement System	69,100
Department of Revenue	4,900
Secretary of State	1,800
State Treasurer	9,200
Department of Veterans' Services	52,700
Total Legal Services Charges	\$1,798,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Anti-Racketeering Revolving Fund (AGA2131/A.R.S. § 13-2314.01)		Non-Appropriated
Source of Revenue: Forfeitures of property and assets to satisfy judgments pursuant to anti-racketeering statutes.		
Purpose of Fund: To investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.		
Funds Expended	17,939,000	13,526,700
Year-End Fund Balance	24,974,800	20,548,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Antitrust Enforcement Revolving Fund (AGA2016/A.R.S. § 41-191.02)		Appropriated
<i>Source of Revenue:</i> Monies recovered for the state as a result of antitrust, restraint of trade or price-fixing activity enforcement.		
<i>Purpose of Fund:</i> For antitrust enforcement expenses, excluding attorney compensation.		
Funds Expended	147,800	246,300
Year-End Fund Balance	1,088,900	1,196,500
Attorney General Expendable Trust Fund (AGA3102/A.R.S. § 35-149)		Non-Appropriated
<i>Source of Revenue:</i> Restricted donations and gifts from individuals and corporations.		
<i>Purpose of Fund:</i> For purposes specified by donors or grantors.		
Funds Expended	1,099,800	1,846,900
Year-End Fund Balance	3,681,800	1,840,900
Attorney General Legal Services Cost Allocation Fund (AGA4240/A.R.S. § 41-191.09)		Appropriated
<i>Source of Revenue:</i> Flat dollar amount from agencies as annually specified by the General Appropriation Act.		
<i>Purpose of Fund:</i> To fund non-contracted Attorney General Legal Services.		
Funds Expended	1,931,900	2,080,400
Year-End Fund Balance	388,100	106,200
Child and Family Advocacy Center Fund (AGA2540/A.R.S. § 41-191.11)		Non-Appropriated
<i>Source of Revenue:</i> Appropriated funds as well as other monies such as private gifts and grants.		
<i>Purpose of Fund:</i> Funds shall be distributed to child and family advocacy centers that apply for funding and meet certain eligibility requirements. The Attorney General may use up to 5% of the monies in the fund for administrative costs.		
Funds Expended	0	0
Year-End Fund Balance	0	0
CJEF Distribution to County Attorneys Fund (AGA2068/A.R.S. § 41-2401)		Non-Appropriated
<i>Source of Revenue:</i> 9.35% of the Criminal Justice Enhancement Fund (CJEF) monies. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
<i>Purpose of Fund:</i> To enhance prosecutorial efforts of county attorneys.		
Funds Expended	3,249,300	3,484,900
Year-End Fund Balance	661,000	330,500
Collection Enforcement Revolving Fund (AGA2132/A.R.S. § 41-191.03)		Appropriated
<i>Source of Revenue:</i> The fund receives 35% of monies recovered by the Attorney General from debts owed to the state.		
<i>Purpose of Fund:</i> For expenses related to debt collection owed to the state, including reimbursement of other accounts within the department. Also can be used for operating expenses, including any costs associated with the Tobacco Master Settlement Agreement arbitration. Monies in the Collection Enforcement Revolving Fund up to \$500,000 are non-lapsing.		
Funds Expended	6,282,000	6,920,900
Year-End Fund Balance	938,800	474,300
Colorado River Land Claims Revolving Fund (AGA2430/A.R.S. § 41-191.05)		Non-Appropriated
<i>Source of Revenue:</i> Receives 25% of monies recovered by the state from the settlement of the State of Arizona's sovereign land claims.		
<i>Purpose of Fund:</i> To pay ownership claims near the Colorado River.		
Funds Expended	0	0
Year-End Fund Balance	12,300	12,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Consumer Protection - Consumer Fraud Revolving Fund (AGA2014/A.R.S. § 44-1531.01)		Appropriated
Source of Revenue: Any monies recovered for the state from investigative or court costs, attorney fees or civil penalties pertaining to consumer protection or consumer fraud.		
Purpose of Fund: For consumer fraud education and for investigative and enforcement operations of the Consumer Protection Division, excluding attorney compensation. Also can be used for operating expenses, including any costs associated with the Tobacco Master Settlement Agreement arbitration.		
Funds Expended	3,935,900	6,335,600
Year-End Fund Balance	13,456,600	11,664,600
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund (AGA2573/A.R.S. § 44-1531.02)		Partially-Appropriated
Source of Revenue: Monies collected by the Attorney General from court orders, compromises or settlements resulting from violations of consumer protection laws.		
Purpose of Fund: The Consumer Restitution and Remediation Revolving Fund comprises two subaccounts: the Consumer Restitution Subaccount and the Consumer Remediation Subaccount. The Consumer Remediation Subaccount consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable person. Monies in the Consumer Remediation Subaccount up to \$3,500,000 are continuously appropriated. Any amount of money collected over that amount is subject to legislative appropriation.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	445,200	2,107,900
Year-End Fund Balance	8,050,100	6,467,200
Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund (AGA2573/A.R.S. § 44-1531.02)		Non-Appropriated
Source of Revenue: Monies collected by the Attorney General from court orders, compromises or settlements resulting from violations of consumer protection laws.		
Purpose of Fund: The Consumer Restitution and Remediation Revolving Fund comprises two subaccounts: the Consumer Restitution Subaccount and the Consumer Remediation Subaccount. The Consumer Restitution Subaccount is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws.		
Funds Expended	950,000	0
Year-End Fund Balance	7,403,200	13,033,600
Court-Ordered Trust Fund (AGA3180/A.R.S. § 35-142)		Partially-Appropriated
Source of Revenue: Court-ordered deposits held in trust for parties to lawsuits. Includes funds from a 2012 nationwide settlement between numerous states and mortgage loan services. Arizona residents received a total of \$1.6 billion from the settlement, of which \$33.9 million was allocated to the Attorney General.		
Purpose of Fund: To assure funds are available to pay judgments. Future payments are dependent on case settlements. Through FY 2017, the Attorney General has spent \$31.1 million of its \$33.9 million allotment from the 2012 National Mortgage Settlement. The Attorney General anticipates spending \$1.1 million in FY 2018, which is not displayed below to avoid double counting expenditures. The non-appropriated expenditures in FY 2017 reflect court-ordered settlements other than the National Mortgage Settlement.		
Appropriated Funds Expended	2,344,300	0
Non-Appropriated Funds Expended	2,492,600	0
Year-End Fund Balance	18,880,800	10,237,100
Criminal Case Processing Fund (AGA2461/A.R.S. § 41-2421)		Non-Appropriated
Source of Revenue: A portion of redirected court collections and 0.35% of the surcharge on criminal, motor vehicle, and game and fish statute violations.		
Purpose of Fund: For the processing of criminal cases.		
Funds Expended	30,400	123,900
Year-End Fund Balance	223,500	166,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Grants (AGA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Grants awarded by various federal agencies and state agencies which pass through federal monies.		
<i>Purpose of Fund:</i> To be used in accordance with the terms of the individual grants.		
Funds Expended	5,582,000	7,587,300
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (AGA9000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grant monies and other appropriated and non-appropriated funds.		
<i>Purpose of Fund:</i> To pay administrative costs not directly attributable to any single agency program.		
Funds Expended	6,921,500	9,630,600
Year-End Fund Balance	4,650,300	2,350,300
Interagency Service Agreements Fund (AGA2657/A.R.S. § 41-192)		Appropriated
<i>Source of Revenue:</i> Any monies received by the Attorney General from charges to state agencies for legal services related to interagency service agreements.		
<i>Purpose of Fund:</i> To provide contracted legal services to state agencies and political subdivisions.		
Funds Expended	14,995,600	16,500,800
Year-End Fund Balance	2,479,900	0
Intergovernmental Agreements Fund (AGA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Any monies received from state agencies for specialized projects.		
<i>Purpose of Fund:</i> For costs associated with approved projects.		
Funds Expended	21,811,400	29,455,500
Year-End Fund Balance	2,135,900	37,100
Internet Crimes Against Children Enforcement Fund (AGA3217/A.R.S. § 41-199)		Appropriated
<i>Source of Revenue:</i> Pursuant to A.R.S. § 5-554, the fund receives \$900,000 from the proceeds of lottery games that are sold from a vending machine in age-restricted areas. If the lottery games do not produce sufficient funds for the \$900,000 allocation, then unclaimed lottery prize monies will be used to backfill the difference. A.R.S. § 5-554 also directs \$100,000 from the same lottery game revenue to the Victims' Rights Enforcement Fund administered by the Department of Public Safety. (Please see the Department of Public Safety for more detail on the Victims' Rights Enforcement Fund.)		
<i>Purpose of Fund:</i> For the Attorney General to enter into 1 or more intergovernmental agreements to continue the operation of the federally recognized Internet Crimes Against Children Task Force program that coordinates a national network of coordinated task forces that assist federal, state, local, and tribal law enforcement agencies in investigations, forensic examinations, and prosecutions related to technology-facilitated sexual exploitation of children and internet crimes against children.		
Funds Expended	632,100	900,000
Year-End Fund Balance	2,067,900	1,772,300
Motor Carrier Safety Revolving Fund (AGA2380/A.R.S. § 28-5203)		Non-Appropriated
<i>Source of Revenue:</i> This fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material, substances or waste, as required by A.R.S. Title 28, Chapter 14; and monies received from private grants or donations.		
<i>Purpose of Fund:</i> The Department of Public Safety conducts motor carrier safety investigations, the Motor Vehicle Division of the Department of Transportation administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	0	0
Year-End Fund Balance	37,200	40,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Prosecuting Attorneys' Advisory Council Training Fund (AGA2057/A.R.S. § 41-1830.03)		Non-Appropriated
Source of Revenue: 3.03% of Criminal Justice Enhancement Fund (CJEF) monies. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For costs of training, technical assistance for prosecuting attorneys of the state and any political subdivision, and expenses for the operation of the council.		
Funds Expended	1,022,800	1,022,200
Year-End Fund Balance	400	200
Risk Management Revolving Fund (AGA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to agencies insured under the state's risk management system, as well as recoveries by the state through litigation.		
Purpose of Fund: To pay for the legal services ISA contract between the Attorney General and the Arizona Department of Administration.		
Funds Expended	8,638,700	9,468,600
Year-End Fund Balance	418,200	0
State Aid to Indigent Defense Fund (AGA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, a 14.66% allocation of a 7% penalty assessment on fines, penalties and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and a 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: See Arizona Criminal Justice Commission. Prior to FY 2017, the budget permitted the Attorney General to use State Aid to Indigent Defense Fund monies for capital postconviction prosecution. The FY 2017 budget shifted this appropriation to the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	103,100	103,100
Victim Witness Assistance Fund (AGA2228/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants from the Victim Compensation and Assistance Fund and the Victims of Crime Act Fund.		
Purpose of Fund: To assist crime victims and surviving family members who are involved in felony cases and appellate matters.		
Funds Expended	14,300	0
Year-End Fund Balance	5,400	5,400
Victims' Rights Fund (AGA3215/A.R.S. § 41-191.08)		Appropriated
Source of Revenue: 7.68% of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For states and local entities that provide victims' rights services and assistance.		
Funds Expended	3,609,700	3,761,300
Year-End Fund Balance	1,648,000	486,700

Automobile Theft Authority

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	139,200
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	102,700
Equipment	19,800	25,000	25,000
OPERATING SUBTOTAL	619,600	643,700	637,800
SPECIAL LINE ITEMS			
Arizona Vehicle Theft Task Force	0	3,650,000	3,650,000
Automobile Theft Authority Grants	4,593,600	0	0
Local Grants	0	957,700	957,700
Reimbursable Programs	0	50,000	50,000
AGENCY TOTAL	5,213,200	5,301,400	5,295,500

FUND SOURCES

Other Appropriated Funds

Automobile Theft Authority Fund	5,213,200	5,301,400	5,295,500
SUBTOTAL - Other Appropriated Funds	5,213,200	5,301,400	5,295,500
SUBTOTAL - Appropriated Funds	5,213,200	5,301,400	5,295,500
Other Non-Appropriated Funds	73,300	14,800	14,800
TOTAL - ALL SOURCES	5,286,500	5,316,200	5,310,300

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

Operating Budget

The Baseline includes \$637,800 and 6 FTE Positions from the ATA Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,900) from the ATA Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Arizona Vehicle Theft Task Force

The Baseline 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.)*

Local Grants

The Baseline 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The Automobile Theft Authority shall pay 75% of the Personal Services and Employee-Related Expenses for city, town and county sworn officers who participate in the Arizona Vehicle Theft Task Force.

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.

The Automobile Theft Authority shall submit a report to the Joint Legislative Budget Committee before expending any monies for the Reimbursable Programs line item. The agency shall show sufficient monies collected to cover the expenses indicated in the report.

Other Issues

Automobile Theft Authority Grants

The ATA was appropriated \$4,607,700 from the ATA Fund in FY 2018 for grants to state and local law enforcement entities. In FY 2017 these grants were funded from the ATA Grants line item, however, beginning in FY 2018,

funding for the grants will be divided between the Arizona Vehicle Theft Task Force and Local Grants line items. Table 1 displays the allocations of grants for FY 2017 and estimated FY 2018 distributions by recipient and category.

Rent Increase

The ATA will move from 1400 W. Washington to 1110 W. Washington in January 2018. As a result, ATA’s net payment for the new space will be \$13,600 above their current rent. The Baseline does not include this increase in the operating budget.

	ATA Grant Recipients	
Recipient	FY 2017	FY 2018 est. ^{1/}
Arizona Vehicle Theft Task Force (DPS)	\$ 3,650,000	\$3,650,000
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 240,700	\$ 235,800
Pima County Attorney	211,300	216,100
Pinal County Attorney	173,700	169,100
La Paz County Attorney	85,600	119,700
Mohave County Attorney	94,300	109,600
Santa Cruz County Attorney	<u>64,600</u>	<u>80,800</u>
Subtotal	\$ 870,200	\$ 931,100
Law Enforcement Grants		
Kingman Police Department	\$ 28,800	\$ -
Maricopa County Sheriff	3,200	-
Quartzite Police Department	<u>49,900</u>	<u>-</u>
Subtotal	\$ 81,900	\$ 1,000
Professional Training Grants		
Arizona Vehicle Theft Task Force (DPS)	\$ 3,000	\$ -
Subtotal	\$ 3,000	\$ 1,000
Public Awareness Grants	\$ 0	\$ 23,800
Discretionary Grants	\$ 0	\$ 1,000
TOTAL	\$4,605,100 ^{2/}	\$4,607,900 ^{3/}

^{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 2017 Actuals for Automobile Theft Authority Grants due to an unspent FY 2016 grant to the Gilbert Police Department of \$11,500 being reallocated in FY 2017.

^{3/} Amount does not match actual or appropriated amount due to rounding.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Automobile Theft Authority Fund (ATA2060/A.R.S. § 41-3451)		Appropriated
Source of Revenue: A semi-annual fee of \$0.50 per vehicle insured under a motor vehicle liability insurance policy for vehicles with a gross weight under 26,000 pounds.		
Purpose of Fund: To allocate monies to public agencies for the purpose of establishing, maintaining and supporting programs that are designed to prevent motor vehicle theft, and to cover the costs of administration not to exceed 10% of the fund.		
Funds Expended	5,213,200	5,301,400
Year-End Fund Balance	1,765,700	2,941,900
Settlement Fund (ATA1991/A.R.S. § 41-3451)		Non-Appropriated
Source of Revenue: Revenues from settlements issued by the courts.		
Purpose of Fund: To provide grants to law enforcement agencies for metal management training.		
Funds Expended	73,300	14,800
Year-End Fund Balance	29,700	14,900

Board of Barbers

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	64,400
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	79,900
Equipment	600	600	600
AGENCY TOTAL	304,500	345,800	341,800

FUND SOURCES

Other Appropriated Funds

Board of Barbers Fund	304,500	345,800	341,800
SUBTOTAL - Other Appropriated Funds	304,500	345,800	341,800
SUBTOTAL - Appropriated Funds	304,500	345,800	341,800
TOTAL - ALL SOURCES	304,500	345,800	341,800

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

Operating Budget

The Baseline includes \$341,800 and 4 FTE Positions from the Board of Barbers Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(4,000) from the Board of Barbers Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* section.)

* * *

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Barbers Fund (BBA2007/A.R.S. § 32-305)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of barbers, barber schools, and barbering establishments. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate barbers, barber schools, and barbering establishments, and for board administration.		
Funds Expended	304,500	345,800
Year-End Fund Balance	680,500	696,000

Board of Behavioral Health Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	316,700
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	236,500
Equipment	5,200	20,400	20,400
AGENCY TOTAL	1,542,000	1,777,800	1,759,100

FUND SOURCES

Other Appropriated Funds

Board of Behavioral Health Examiners Fund	1,542,000	1,777,800	1,759,100
SUBTOTAL - Other Appropriated Funds	1,542,000	1,777,800	1,759,100
SUBTOTAL - Appropriated Funds	1,542,000	1,777,800	1,759,100
TOTAL - ALL SOURCES	1,542,000	1,777,800	1,759,100

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

Operating Budget

* * *

The Baseline includes \$1,759,100 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:

FORMAT — Lump Sum by Agency

Other Issues

One-Time Relocation Costs

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(18,700) from the Board of Behavioral Health Examiners Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* section.)

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Behavioral Health Examiners Fund (BHA2256/A.R.S. § 32-3254)		Appropriated
Source of Revenue: Monies collected by the board from the certification and regulation of behavioral health professionals in the fields of social work, counseling, marriage and family therapy, and substance abuse counseling. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, certify, investigate, and regulate behavioral health professionals, and for board administration.		
Funds Expended	1,542,000	1,777,800
Year-End Fund Balance	2,029,600	2,254,600

State Board for Charter Schools

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	272,500
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	160,000
Equipment	10,300	3,000	3,000
AGENCY TOTAL	997,300	1,200,600	1,185,200
FUND SOURCES			
General Fund	997,300	1,200,600	1,185,200
SUBTOTAL - Appropriated Funds	997,300	1,200,600	1,185,200
Other Non-Appropriated Funds	32,000	61,500	61,500
TOTAL - ALL SOURCES	1,029,300	1,262,100	1,246,700

AGENCY DESCRIPTION — The board reviews and approves charter school applications, including renewal applications, and monitors the schools that it sponsors for compliance with provisions of their individual charters. It consists of the Superintendent of Public Instruction, 6 members of the general public, 2 members of the business community, a charter school teacher, a charter school operator, and 3 members of the Legislature who serve as advisory members. Currently the board oversees 545 charter schools.

Operating Budget

* * *

The Baseline includes \$1,185,200 and 14 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(15,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Charter Arizona Online Instruction Processing Fund (CHA2319/A.R.S. § 15-183W)		Non-Appropriated
Source of Revenue: Consists of fees collected and administered by the State Board for Charter Schools.		
Purpose of Fund: To fund the processing of contract amendments for charter schools participating in Arizona online instruction.		
Funds Expended	6,000	3,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Implementation Project Fund (CHA2025/A.R.S. § 15-182)		Non-Appropriated
<i>Source of Revenue:</i> Consists of funds from private donations and Governor's Office of Education Innovation.		
<i>Purpose of Fund:</i> To fund the creation of the board's Performance Framework, automation of the academic dashboard development, improvements to online modules, conferences, and training.		
Funds Expended	0	0
Year-End Fund Balance	5,500	5,500
New Charter Application Processing Fund (CHA2568/A.R.S. § 15-183.01)		Non-Appropriated
<i>Source of Revenue:</i> Consists of fees collected and administered by the State Board for Charter Schools.		
<i>Purpose of Fund:</i> To fund the processing of applications submitted for new charters.		
Funds Expended	26,000	58,500
Year-End Fund Balance	78,200	78,200

Department of Child Safety

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,147.2	3,193.1	3,193.1
Personal Services	50,402,800	54,519,600	59,409,000
Employee Related Expenditures	21,093,600	21,002,100	22,517,800
Professional and Outside Services	5,304,700	12,646,700	13,073,500
Travel - In State	522,400	522,400	643,500
Travel - Out of State	169,800	168,400	207,500
Other Operating Expenditures	23,039,600	19,707,400	20,405,200
Equipment	1,334,800	1,571,000	1,622,300
OPERATING SUBTOTAL	101,867,700	110,137,600	117,878,800
SPECIAL LINE ITEMS			
Additional Operating Resources			
Caseworkers	89,150,800	99,845,400	107,987,700
Attorney General Legal Services	25,416,800	25,548,300	25,416,800
Backlog Privatization	2,700,000	0	0
CHILDS Replacement	0	0	5,000,000
General Counsel	130,100	156,200	0
Inspections Bureau	2,207,900	2,480,300	0
Litigation Expenses	0	2,471,200	0
New Case Aides	509,500	3,077,100	0
Office of Child Welfare Investigations	7,847,300	9,648,000	9,611,100
Overtime Pay	6,996,600	8,387,300	0
Records Retention Staff	574,100	594,600	0
Retention Pay	895,300	1,707,000	0
Training Resources	8,926,000	9,150,000	9,150,000
Out-of-Home Placements			
Allowances	0	0	8,062,000
Congregate Group Care	101,000,100	98,900,100	98,900,100
Foster Home Placement	56,144,000	59,595,500	55,595,500
Foster Home Recruitment, Study and Supervision	0	32,753,600	32,753,600
Independent Living	3,941,200	4,660,000	9,156,100
Kinship Care	541,000	2,000,000	4,972,600
Permanent Placements			
Adoption Services	226,993,300	245,498,100	251,035,100
Permanent Guardianship Subsidy	11,684,500	12,516,900	11,684,900
Support Services			
Comprehensive Medical and Dental Program	0	0	44,781,300
DCS Child Care Subsidy	47,420,600	48,159,400	48,159,400
In-Home Mitigation	29,221,800	28,988,100	20,467,100
Out-of-Home Support Services	184,297,800	154,518,900	0
Parent Aide	0	0	20,444,700
Preventive Services	15,148,300	15,148,300	15,148,300
Substance Abuse and Mental Health Services	0	0	24,869,200
Supervised Visitation	0	0	30,617,000
Transportation	0	0	14,880,100
Other Support Services	0	0	2,819,400
AGENCY TOTAL	923,614,700	975,941,900	969,390,800

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
FUND SOURCES			
General Fund	374,445,500	379,790,800	384,374,800
<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	152,445,300
Risk Management Revolving Fund	0	2,471,200	0
SUBTOTAL - Other Appropriated Funds	177,539,500	180,610,300	181,111,700
SUBTOTAL - Appropriated Funds	551,985,000	560,401,100	565,486,500
<u>Expenditure Authority Funds</u>			
Child Safety Expenditure Authority	371,629,700	415,540,800	403,904,300
SUBTOTAL - Expenditure Authority Funds	371,629,700	415,540,800	403,904,300
SUBTOTAL - Appropriated/Expenditure Authority Funds	923,614,700	975,941,900	969,390,800
TOTAL - ALL SOURCES	923,614,700	975,941,900	969,390,800

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.

Summary

DCS' General Fund spending increases by \$4,584,000, or 1.2%, including:

- \$5,000,000 for continued funding of the CHILDS Replacement project.
- \$(416,000) for the removal of a one-time FY 2018 health insurance adjustment.

The Baseline also adjusts DCS' budget structure by consolidating DCS' operating resources and creating new line items for support services. These adjustments do not have a General Fund impact. *(Please see Other Issues for additional information.)*

Operating Budget

The Baseline includes \$117,878,800 and 1,382.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$63,870,000
Federal TANF Block Grant	17,477,700
Child Safety Expenditure Authority	36,531,100

FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes an increase of \$8,015,200 and 71 FTE Positions in FY 2019 to consolidate DCS staff-based line items in the operating budget. These amounts consist of:

General Fund	6,194,000
Federal TANF Block Grant	549,700
Child Safety Expenditure Authority	1,271,500

The Baseline transfers funding from the line items for the General Counsel, Inspections Bureau, New Case Aides, Records Retention Staff, and Retention Pay to the Operating Budget. *(Please see DCS Budget Structure in Other Issues for additional information.)*

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(274,000) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(159,800)
Child Safety Expenditure Authority	(114,200)

(Please see the Technical Budget Assumptions section.)

Additional Operating Resources

Caseworkers

The Baseline includes \$107,987,700 and 1,406 FTE Positions in FY 2019 for caseworkers. These amounts consist of:

General Fund	38,793,400
Children and Family Services Training Program Fund	207,100
Federal TANF Block Grant	33,859,500
Child Safety Expenditure Authority	35,127,700

FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes an increase of \$8,387,300 in FY 2019 to transfer funding from the Overtime Pay line item to the Caseworkers line item. This amount consists of:

General Fund	2,604,000
Federal TANF Block Grant	3,859,500
Child Safety Expenditure Authority	1,923,800

(Please see DCS Budget Structure in Other Issues for additional information.)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(245,000) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(142,700)
Child Safety Expenditure Authority	(102,300)

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 November 2017, DCS had filled 1,329 of these positions, or (77) fewer filled positions than the funded amount. This amount includes 73 more caseworkers in training than the funded level, which is offset by (150) fewer caseworkers and hotline staff than the funded level.

<u>Direct Line Staff Type</u>	<u>DCS Caseworker Hiring</u>		
	<u>Funded Positions</u>	<u>Nov. 2017</u>	<u>Difference</u>
Case-Carrying Caseworkers	1,190	1,048	(142)
Caseworkers in Training	140	213	73
Hotline Staff	76	68	(8)
Total	1,406	1,329	(77)

Attorney General Legal Services

The Baseline includes \$25,416,800 and 276.2 FTE Positions in FY 2019 for Attorney General Legal Services. These amounts consist of:

General Fund	18,600,600
Federal TANF Block Grant	99,400
Child Safety Expenditure Authority	6,716,800

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(131,500) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(76,600)
Child Safety Expenditure Authority	(54,900)

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.)*

CHILDS Replacement

The Baseline includes \$5,000,000 from the General Fund in FY 2019 to replace the Children's Information Library and Data Source (CHILDS) system. FY 2019 adjustments are as follows:

Transfer from ADOA

The Baseline includes an increase of \$5,000,000 from the General Fund in FY 2019 for DCS' CHILDS Replacement Project. This funding was previously included in the budget for the Arizona Department of Administration (ADOA) - Automation Projects Fund. As a result of this funding no longer appearing in ADOA's budget, this shift will not increase overall state funding above the FY 2018 level. The shift will align resources with the agency actually spending the funds for the project.

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 is expected to be completed in December 2017, and will eventually interface with Guardian. DCS also awarded a contract for the Guardian system platform through which modules will be configured and integrated. The configuration of the platform was completed in July 2017.

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 \$11,100,000 in funding for CHILDS replacement in the FY 2018 budget, the Legislature has authorized a total of \$20,681,600 for the project. With the 50% federal IV-E match, DCS has been appropriated \$41,363,200 of the \$86,088,100 in estimated project costs through FY 2018. Most of the remaining project costs are expected to be associated with the system integrator.

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 November 2017 indicated that the project continues to be on track.

General Counsel

The Baseline includes no funding in FY 2019 for General Counsel. FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes a decrease of \$(156,200) and (1) FTE Position from the General Fund in FY 2019 to consolidate additional operating resources. Funding for the DCS General Counsel is transferred to the DCS Operating Budget. *(Please see DCS Budget Structure in Other Issues for additional information.)*

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 Baseline includes no funding in FY 2019 for the Inspections Bureau. FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes a decrease of \$(2,480,300) and (31) FTE Positions in FY 2019 to transfer funding for the Inspections Bureau to the Operating Budget. This amount consists of:

General Fund	(1,332,900)
Federal TANF Block Grant	(549,700)
Child Safety Expenditure Authority	(597,700)

(Please see DCS Budget Structure in Other Issues for additional information.)

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 Baseline includes no funding in FY 2019 for Litigation Expenses. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(2,471,200) from the Risk Management Revolving Fund in FY 2019 to remove one-time funding for DCS' legal expenses in 2 ongoing class action lawsuits.

Background – DCS is currently a defendant in 2 class action lawsuits in federal courts. *B.K. v. McKay* concerns the adequacy of the state's foster care services, including access to health services for foster children, the availability of family foster placements, investigations of maltreatment within foster placements, and practices to maintain family relationships. The Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) are also defendants in the case. The case has not yet gone to trial.

The other case, *A.D. v. Washburn*, involves a challenge by the Goldwater Institute to the federal Indian Child Welfare Act (ICWA). ICWA provides federally recognized Native American tribes with jurisdiction over child welfare proceedings for children enrolled in or eligible for enrollment in a tribe. DCS is a defendant in the case in its capacity as the agency responsible for administering and

enforcing ICWA in Arizona. In March 2017, a Federal District Court judge dismissed the case due to the plaintiffs' lack of standing. That ruling is currently on appeal.

DCS has used the funds in this line to retain outside counsel for its legal defense, expert witnesses, discovery costs, and other expenses. The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriated \$2,867,600 from the Risk Management Revolving Fund in FY 2016 for litigation expenses associated with both cases. The appropriation is non-lapsing until June 30, 2018.

In FY 2018, \$2,471,200 in one-time Risk Management Revolving Fund monies were appropriated for DCS litigation expenses. The fund is expected to have a one-time balance of \$48,866,500 in FY 2019, assuming there is no continuation of the one-time funding.

New Case Aides

The Baseline includes no funding in FY 2019 for New Case Aides. FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes a decrease of \$(3,077,100) and (34) FTE Positions in FY 2019 to transfer funding for New Case Aides to the Operating Budget. This amount consists of:

General Fund	(2,500,000)
Child Safety Expenditure Authority	(577,100)

(Please see DCS Budget Structure in Other Issues for additional information.)

Office of Child Welfare Investigations

The Baseline includes \$9,611,100 and 127 FTE Positions in FY 2019 for the Office of Child Welfare Investigations (OCWI). These amounts consist of:

General Fund	9,509,100
Child Safety Expenditure Authority	102,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(36,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

OCWI investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As of November 2017, the department had hired 99 of the 127 appropriated FTE Positions.

Overtime Pay

The Baseline includes no funding in FY 2019 for Overtime Pay. FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes a decrease of \$(8,387,300) in FY 2019 to transfer funding for Overtime Pay to the Caseworkers line item. This amount consists of:

General Fund	(2,604,000)
Federal TANF Block Grant	(3,859,500)
Child Safety Expenditure Authority	(1,923,800)

(Please see DCS Budget Structure in Other Issues for additional information.)

Records Retention Staff

The Baseline includes no funding in FY 2019 for Records Retention Staff. FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes a decrease of \$(594,600) and (5) FTE Positions in FY 2019 to transfer funding for Records Retention Staff to the Operating Budget. This amount consists of:

General Fund	(497,900)
Child Safety Expenditure Authority	(96,700)

(Please see DCS Budget Structure in Other Issues for additional information.)

This line item funds staff that process information requests about children in the state child welfare system.

Retention Pay

The Baseline includes no funding in FY 2019 for Retention Pay. FY 2019 adjustments are as follows:

Consolidate Operating Resources

The Baseline includes a decrease of \$(1,707,000) from the General Fund in FY 2019 to transfer funding for Retention Pay to the Operating Budget. *(Please see DCS Budget Structure in Other Issues for additional information.)*

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. The footnote also states that it is the intent of the Legislature that retention pay funding be transferred to the Operating Budget in FY 2019.

Training Resources

The Baseline 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.

DCS also operates a training academy. The training academy is funded out of the operating budget.

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 as of June 30th of each year.

Table 2

Out-of-Home Placements as of June 30th

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Kinship Care ^{1/}	7,558	7,468	6,511
Foster Home	6,762	6,986	6,545
Congregate Group Care	2,541	2,727	2,563
<i>Group Home</i>	1,768	1,999	1,880
<i>Emergency Shelter</i>	360	359	239
<i>Behavioral Health Placement</i>	413	369	444
Independent Living	485	495	476
Other ^{2/}	719	611	540
Total	18,065	18,287	16,635

^{1/} Includes unlicensed relative and non-relative placements

^{2/} Includes runaways, children with no identified placement, and trial home visits.

Allowances

The Baseline includes \$8,062,000 in FY 2019 for Allowances. This amount consists of:

General Fund	939,300
Federal TANF Block Grant	4,919,400
Child Safety Expenditure Authority	2,203,300

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$8,062,000 in FY 2019 to transfer funding for allowances from the Out-of-Home Support Services line item to a new line item for allowances. This amount consists of:

General Fund	939,300
Federal TANF Block Grant	4,919,400
Child Safety Expenditure Authority	2,203,300

Background – All licensed and unlicensed foster homes receive a personal and clothing allowance that ranges from \$19.16 to \$80.00 per month depending on the age of the child. Additional one-time allowances are available for specified expenses.

Congregate Group Care

The Baseline includes \$98,900,100 in FY 2019 for Congregate Group Care. This amount consists of:

General Fund	41,028,000
Federal TANF Block Grant	16,423,000
Child Safety Expenditure Authority	41,449,100

These amounts are unchanged from FY 2018.

Caseload – In FY 2017, there was a monthly average of caseload of 459 emergency shelter placements, 2,085 group home placements, and 76 non-Medicaid behavioral health facility placements. At an average monthly cost of \$2,623 per emergency placement, \$3,288 per group home and \$5,846 per behavioral health placement, funding in this line is sufficient for an average monthly caseload of 444 emergency placements, 2,022 group home placements, and 74 behavioral health 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 Baseline includes \$55,595,500 in FY 2019 for Foster Home Placement. This amount consists of:

General Fund	26,187,500
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	22,434,900

FY 2019 adjustments are as follows:

Caseload Rebase

The Baseline includes a decrease of \$(4,000,000) from the General Fund in FY 2019 to reflect prior-year line item transfers associated with caseload declines in licensed foster homes.

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 6,609 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 Baseline 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

The Baseline includes \$9,156,100 in FY 2019 for Independent Living. This amount consists of:

General Fund	3,258,500
Child Safety Expenditure Authority	5,897,600

FY 2019 adjustments are as follows:

Caseload Rebase

The Baseline includes a decrease of \$(705,000) from the General Fund in FY 2019 to reflect prior-year line item transfers associated with lower-than-budgeted caseload growth in Independent Living maintenance.

Support Services Realignment

The Baseline includes an increase of \$5,201,100 in FY 2019 to transfer federal funding for support services provided to foster youth enrolled in the Independent Living program from the Out-of-Home Support Services line item to the Independent Living line item. This amount consists of:

General Fund	994,200
Child Safety Expenditure Authority	4,206,900

(Please see DCS Budget Structure in Other Issues for additional information.)

Caseload – In FY 2017, a monthly average of 520 clients received the Independent Living Subsidy; the average monthly subsidy for FY 2017 was \$624.

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. Besides the stipends, the Independent Living program also provides training and support services to children who will likely reach the age of 18 while in out-of-home care.

Kinship Care

The Baseline includes \$4,972,600 in FY 2019 for Kinship Care. This amount consists of:

General Fund	2,000,000
Federal TANF Block Grant	2,972,600

FY 2019 adjustments are as follows:

TANF Cash Assistance Transfer

The Baseline includes an increase of \$2,972,600 from the Federal TANF Block Grant in FY 2019 to transfer funding for TANF Cash Assistance paid to unlicensed kinship families from the DES budget to the DCS budget.

Background – This line item funds cash benefits paid to unlicensed kinship caregivers, which includes relatives as well as non-relative caregivers of fictive kinship. "Fictive kin" include caregivers that have a meaningful relationship with the child, but are not related by blood or by marriage.

Unlicensed caregivers may qualify for TANF Cash Benefits. TANF eligibility for foster children is determined solely based on the child's income and there is no time limit on the receipt of benefits. This line item includes \$2,972,600 in TANF Cash Benefits, which is sufficient for an average monthly benefit of \$202 for 1,226 kinship caregivers caring for an estimated 1,962 out-of-home children. While this funding is reflected in the DCS budget, this money will be passed through to DES, as DES continues to administer the state's TANF Cash Assistance program.

Kinship caregivers that do not receive TANF Cash Benefits are eligible for the Kinship Stipend, which provides a \$75 monthly stipend per child to kinship caregivers with

incomes not exceeding 200% of the Federal Poverty Level. The Kinship Stipend is funded by a \$2,000,000 General Fund appropriation. At \$75 per month, the Kinship Stipend is sufficient to fund a monthly average of 2,222 children in kinship care.

Permanent Placements

DCS subsidizes the care of children who exit out-of-home care for placements in adoptive homes or for custody of 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 as of June 30th

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Adoption	21,820	24,040	27,070
Permanent Guardianship	<u>2,552</u>	<u>2,572</u>	<u>2,582</u>
Total	24,372	26,612	29,652

Adoption Services

The Baseline includes \$251,035,100 in FY 2019 for Adoption Services. This amount consists of:

General Fund	83,502,800
Federal TANF Block Grant	20,445,700
Child Safety Expenditure Authority	147,086,600

FY 2019 adjustments are as follows:

Caseload Rebase

The Baseline includes an increase of \$5,537,000 from the General Fund in FY 2019 to reflect prior-year line item transfers associated with caseload growth in the Adoption program.

Caseload – In FY 2017, a monthly average of 25,732 clients received adoption subsidies; the average monthly cost for FY 2017 was \$735. At that monthly cost, the Baseline funds 28,462 total placements in FY 2019. By comparison, the JLBC Staff projects an average monthly caseload of 31,762 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 Baseline includes \$11,684,900 in FY 2019 for the Permanent Guardianship Subsidy. This amount consists of:

General Fund	9,741,900
Federal TANF Block Grant	1,943,000

FY 2019 adjustments are as follows:

Caseload Rebase

The Baseline includes a decrease of \$(832,000) from the General Fund in FY 2019 to reflect prior-year line item transfers associated with lower-than-budgeted caseload growth in the Permanent Guardianship program.

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 2,603 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

Comprehensive Medical and Dental Program

The Baseline includes \$44,781,300 in FY 2019 for the Comprehensive Medical and Dental program. This amount consists of:

General Fund	3,781,300
Child Safety Expenditure Authority	41,000,000

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$44,781,300 in FY 2019 to transfer funding from the Out-of-Home Support Services line item to a new line item for the

Comprehensive Medical and Dental Program. This amount consists of:

General Fund	3,781,300
Child Safety Expenditure Authority	41,000,000

(Please see DCS Budget Structure in Other Issues for additional information.)

Background – The Comprehensive Medical and Dental Program (CMDP) provides physical health services and behavioral health services to children in out-of-home care. DCS administers the CMDP physical health plan, while the Regional Behavioral Health Authorities (RBHAs) administer CMDP behavioral health services.

Approximately 94% of CMDP children were eligible for Medicaid in FY 2017. Medicaid-eligible CMDP children receive funding for services from capitation payments made to DCS by the Arizona Health Care Cost Containment System (AHCCCS). As a result, the state’s share of costs for these children appears in AHCCCS’ budget. The expenditure authority in this line item represents the combined state and federal funding DCS receives from capitation payments to provide physical health services to children. For FY 2018, the per member per month capitation payment made by AHCCCS to DCS is \$225.52. Physical health costs for non-Medicaid CMDP children are funded on a state-only basis by DCS with the General Fund appropriation in this line.

CMDP behavioral health services are also funded by Medicaid capitation payments, but this funding does not appear in DCS’ budget since these payments are made directly to the RBHAs. The Baseline includes a Total Funds appropriation of \$184.3 million in FY 2019 for CMDP behavioral health services in the AHCCCS budget. Behavioral health services for non-Medicaid CMDP children are funded within the Congregate Group Care line (for residential or inpatient behavioral health services), the Foster Home Placement line (for therapeutic foster home placements) and the Substance Abuse and Mental Health Services line (for counseling and psychiatric assessments).

DCS Child Care Subsidy

The Baseline 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 Baseline includes \$20,467,100 and 1 FTE Position in FY 2019 for In-Home Mitigation. These amounts consist of:

General Fund	13,220,200
Child Abuse Prevention Fund	1,459,300
Child Safety Expenditure Authority	5,787,600

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes a decrease of \$(8,521,000) in FY 2019 to transfer funding to new line items for Parent Aide, Transportation, and Substance Abuse and Mental Health Services. This amount consists of:

General Fund	(2,573,800)
Federal TANF Block Grant	(5,911,200)
Child Safety Expenditure Authority	(36,000)

(Please see DCS Budget Structure in Other Issues for additional information.)

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 Baseline includes no funding in FY 2019 for Out-of-Home Support Services. FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes a decrease of \$(154,518,900) in FY 2019 to transfer funding for Out-of-Home Support Services to new line items for Supervised Visitation, Parent Aide, Substance Abuse and Mental Health Services, the Comprehensive Medical and Dental Program, Transportation, and Other 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)

(Please see DCS Budget Structure in Other Issues for additional information.)

Parent Aide

The Baseline includes \$20,444,700 in FY 2019 for Parent Aide. This amount consists of:

General Fund	5,813,500
Federal TANF Block Grant	13,009,600
Child Safety Expenditure Authority	1,621,600

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$20,444,700 in FY 2019 to transfer funding from the In-Home Mitigation line item and the Out-of-Home Support Services line item to a new line item for the Parent Aide program. This amount consists of:

General Fund	5,813,500
Federal TANF Block Grant	13,009,600
Child Safety Expenditure Authority	1,621,600

(Please see DCS Budget Structure in Other Issues for additional information.)

Background – The Parent Aide program provides up to 6 months of education, coaching, and supervised visitation to parents who have had one or more of their children placed in out-of-home care. The instructional sessions

may include skills training in child development, nurturing, child health and safety needs, discipline techniques, meal planning and preparation, reducing social isolation, personal care and hygiene, home care, and budgeting, among other skills. DCS reports that a total of 2,859 referrals were made to the Parent Aide program in FY 2017.

Preventive Services

The Baseline 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.

Substance Abuse and Mental Health Services

The Baseline includes \$24,869,200 from the Federal TANF Block Grant in FY 2019 for Substance Abuse and Mental Health Services. FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$24,869,200 from the Federal TANF Block Grant in FY 2019 to transfer funding from the In-Home Mitigation line item and the Out-of-Home Support Services line item to a new Substance Abuse and Mental Health Services line item. *(Please see DCS Budget Structure in Other Issues for additional information.)*

Background – This line item includes funding for the Arizona Families F.I.R.S.T. (AFF) program, drug testing, and psychiatric and counseling services. The AFF program provides substance abuse treatment services from 3 contracted providers to DCS-involved families for whom substance abuse is a barrier to maintaining or achieving permanency and stability. Available services include assessments, education, outpatient treatment, residential treatment, case coordination, psychiatric services, supportive services (such as transportation or housing assistance), and recovery coaches. Medicaid-eligible clients are referred to the RBHAs to receive these services, while DCS funds AFF services on a state-only basis for Medicaid-ineligible clients. DCS reports that there were 9,611 new referrals to the AFF program in FY 2016.

Supervised Visitation

The Baseline includes \$30,617,000 in FY 2019 for Supervised Visitation. This amount consists of:

General Fund	17,020,900
Federal TANF Block Grant	6,804,100
Child Safety Expenditure Authority	6,792,000

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$30,617,000 in FY 2019 to transfer funding from the Out-of-Home Support Services line item to create a new line item for Supervised Visitation. This amount consists of:

General Fund	17,020,900
Federal TANF Block Grant	6,804,100
Child Safety Expenditure Authority	6,792,000

(Please see DCS Budget Structure in Other Issues for additional information.)

Background – DCS contracts with providers that supervise visits between out-of-home children and their parents to continue family contact while children are in the custody of DCS. DCS reports that there were 10,592 referrals to supervised visitation in FY 2017.

Transportation

The Baseline includes \$14,880,100 in FY 2019 for Transportation. This amount consists of:

General Fund	10,857,100
Child Safety Expenditure Authority	4,023,000

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$14,880,100 in FY 2019 to transfer funding from the In-Home Mitigation line item and the Out-of-Home Support Services line item to a new line item for Transportation. This amount consists of:

General Fund	10,857,100
Child Safety Expenditure Authority	4,023,000

(Please see DCS Budget Structure in Other Issues for additional information.)

Background – This line item includes funding for contracted providers of routine and non-routine transportation services for DCS-involved children, as well

as their parents and relatives as appropriate. It also includes funding for bus passes distributed by DCS to older youth, parents, guardians, or custodians. This line item does not include reimbursement for transportation expenses that are already included within certain other service categories, such as parent aide and supervised visitation services.

Other Support Services

The Baseline includes \$2,819,400 in FY 2019 for Other Support Services. This amount consists of:

General Fund	119,900
Federal TANF Block Grant	2,649,000
Child Safety Expenditure Authority	50,500

FY 2019 adjustments are as follows:

Support Services Realignment

The Baseline includes an increase of \$2,819,400 in FY 2019 to transfer funding from the line items for Out-of-Home Support Services and In-Home Mitigation to create a new line item for Other Support Services. This amount consists of:

General Fund	119,900
Federal TANF Block Grant	2,649,000
Child Safety Expenditure Authority	50,500

(Please see DCS Budget Structure in Other Issues for additional information.)

Background – This line item includes funding for interpreter services, housing subsidies, case management, and other miscellaneous services provided to families of children in out-of-home care.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Additional Operating Resources

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.

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

Out-of-Home Placements

~~Of the amounts appropriated for Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement, The Department of Child Safety may transfer up to 10% of the total amount of Federal Temporary Assistance for Needy Families Block Grant monies appropriated to the Department of Economic Security and the Department of Child Safety to the Social Services Block Grant. for use in the following line items in the Department of Child Safety: Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement.~~ Before transferring federal Temporary Assistance for Needy Families Block Grant monies to the Social Services Block Grant, the Department of Child Safety shall report the proposed amount of the transfer to the Director of the Joint Legislative Budget Committee. This report may be in the form of an expenditure plan that is submitted at the beginning of the fiscal year and updated, if necessary, throughout the fiscal year. *(The Baseline revises the footnote to reflect the new budget structure.)*

The amount appropriated for Kinship Stipends shall be used for a stipend of \$75 per month for a relative caretaker, including a grandparent, any level of great-grandparent or any nongrandparent relative, or a caretaker of fictive kinship, if a dependent child is placed in the care of a relative caretaker or caretaker of fictive kinship pursuant to department guidelines. To be eligible for the stipend, the caretaker's income may not exceed 200% of the federal poverty guidelines. Before changing eligibility for the program or the amount of the stipend, the department shall submit a report for review by the Joint Legislative Budget Committee detailing the proposed changes.

Departmentwide

The Department of Child Safety shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include a plan, if necessary, for eliminating any shortfall without a supplemental appropriation.

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.

Beginning on the 7th day of the month following the effective date of this act and on the 7th day of each month thereafter through June 30, 2019, the Department of Child Safety shall issue to the Governor, the Chairpersons of the House of Representatives Appropriations and Judiciary and Public Safety Committees and the Senate Appropriations and Health and Human Services Committees and the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting a report on new hires and separations. The report shall include the total number of FTE Positions funded and the total number of FTE Positions filled on the last day of each month. The department shall also delineate new hires and separations by case-carrying caseworkers, hotline staff, caseworkers-in-training, assistant program managers, unit supervisors, case aides, Office of Child Welfare Investigations staff and administrative staff by function.

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.

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.

Benchmarks

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.

For the purposes of this section, "open report" means a report that is under investigation or awaiting closure by a supervisor.

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 increasing the number of filled FTE Positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home children. The report shall include the number of backlog cases, the number of open reports, the number of out-of-home children and the caseworker workload on March 31, 2016 in comparison to the latest quarter. The report shall provide the number of backlog cases by disposition, including the number of backlog cases in the investigation phase, the number of backlog cases associated with out-of-home placements and the number of backlog cases associated with in-home cases.

To determine the caseworker workload, the department shall report the number of case-carrying caseworkers at each field office and the number of investigations, in-home cases, and out-of-home children assigned to each field office.

The quarterly report shall provide the same information on the total number of filled FTE Positions as is required by the monthly hiring report.

For backlog cases, the department's quarterly benchmark is 1,000 cases as of June 30, 2017 and thereafter.

For open reports, the department's benchmark is to have fewer than 8,000 open reports as of June 30, 2017 and thereafter. The open reports benchmark represents the average number of incoming reports for each 2 month period beginning March 1, 2016 through February 28, 2017.

For out-of-home children, the department's benchmark is to reduce the number of children in out-of-home care by an average of an additional 2.0% every quarter with respect to the out-of-home care population as of December 31, 2016. It is the intent of the Legislature that the cumulative reduction in the out-of-home care population as compared to the population as of December 31, 2016 be 11.4%, or at or below 15,191 children, on or before June 30, 2018.

If the Department of Child Safety has not submitted the quarterly report within 30 days after the last day of the calendar quarter, the Director of the Joint Legislative Budget Committee shall inform the General Accounting Office of the Department of Administration, which shall withhold 2% of the department's operating lump sum quarterly budget allocation until the quarterly report is

submitted. (All Benchmark footnotes will need to be revisited as part of the 2018 session.)

Deletion of Prior Year Footnotes

The Baseline deletes footnotes related to:

- Retention pay
- Prior budget structure for support services
- Moss-Adams follow-up audits
- Backlog privatization funding

STATUTORY CHANGES

The Baseline would:

- As session law, continue 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.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Auditor General Report
- DCS Budget Structure
- Line Item Transfers
- DCS Reporting Requirements

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, the Department of Child Safety's General Fund costs are projected to remain unchanged in FY 2020 and FY 2021. The long-term estimates assume the \$5.0 million General Fund appropriation for CHILDS Replacement continues in FY 2020 and FY 2021.

Auditor General Report

Pursuant to the FY 2017 Human Services Budget Reconciliation Bill (Laws 2016, Chapter 123), the Auditor General reported on the Department of Child Safety's (DCS) practices related to staff retention, recruitment, and training for caseworkers, caseworker supervisors, case aides, program managers, and Office of Child Welfare Investigations (OCWI) staff.

The Auditor General made the following findings and recommendations:

- DCS' estimated turnover for the selected staff was approximately 30% in FY 2016 and FY 2017. Other

private social services agencies in Arizona reported slightly higher turnover rates of 33%, while a survey of child welfare agencies in other states found that most agencies had turnover rates of 19% or lower. The Auditor General recommends that DCS improve the consistency of turnover data across its internal and external staffing reports.

- DCS is taking several steps to increase retention, including salary adjustments for case aides and caseworkers within existing department resources, as well as improvements in staff orientation, training, supervision and workload.
- The department could take additional actions to enhance recruitment, including hiring more caseworkers with a background in social work or related fields, using a realistic job preview video to ensure caseworkers have accurate expectations about the job prior to being hired, and improving its tools to assess a candidate's competencies for the position for which they are applying.
- DCS should conduct an evaluation of its tuition scholarship program for social work graduates from Arizona State University and Northern Arizona University to determine the program's impact on recruitment and retention. Approximately 50-65 new caseworkers per year are recruited out of these programs.
- The department should strengthen staff training by increasing the level of support for trainees, developing a formal training program for program managers that oversee DCS field offices, developing minimum continuous training requirements to be completed by staff annually, improving processes for monitoring training completion, and continuing to evaluate the efficacy of its training programs.

DCS agreed to 15 out of 16 recommendations made by the Auditor General, but for 7 recommendations DCS has decided to develop a different method of addressing the finding. For example, although the Auditor General recommended that DCS revise its minimum caseworker qualifications to include a preference for individuals with a social work or related degree and/or previous child welfare experience, DCS does not plan to revise these qualifications. Instead, the department will consider preference for applicants with a social work background without revising the formal qualifications for the position.

The Auditor General will complete additional audits of the Arizona Families F.I.R.S.T. program by March 31, 2018, caseworker caseload by December 31, 2018, and foster home recruitment and retention by September 30, 2019.

Table 4

DCS Support Services Realignment

	FY 2018 <u>Appropriation</u>	Out-of-Home Support Services <u>Transfer</u>	In-Home Mitigation <u>Transfer</u>	Eliminate Excess Expenditure <u>Authority</u>	FY 2019 <u>Baseline</u>
Out-of-Home Support Services	\$154,518,900	\$(143,153,800)		\$(11,365,100)	\$0
In-Home Mitigation	28,988,100		(8,521,000)		20,467,100
Allowances		8,062,000			8,062,000
CMDP		44,781,300			44,781,300
Independent Living ^{1/}		5,201,100			5,201,100
Parent Aide		17,089,900	3,354,800		20,444,700
Substance Abuse and Mental Health Services		21,947,300	2,921,900		24,869,200
Supervised Visitation		30,617,000			30,617,000
Transportation		12,802,400	2,077,700		14,880,100
Other Support Services		<u>2,652,800</u>	<u>166,600</u>		<u>2,819,400</u>
TOTAL	\$183,507,000	\$0	\$0	\$(11,365,100)	\$172,141,900

^{1/} Independent Living services were transferred to the existing Independent Living Maintenance line item. The consolidated line item is now called Independent Living.

DCS Budget Structure

DCS' budget for support services (excluding the DCS Child Care Subsidy) is currently funded through 3 line items: Out-of-Home Support Services, In-Home Mitigation, and Preventive Services. While this structure provides the department with flexibility by funding multiple services within only 3 line items, it obscures how cost changes within individual service categories have driven DCS' funding needs in recent years. For example, between FY 2015 and FY 2016, DCS' total support services expenditures increased from \$209.0 million in Total Funds to \$248.5 million, or an increase of \$39.5 million. Most of this increase, however, was driven by an increase in combined costs of Parent Aide and Supervised Visitation from \$48.2 million to \$75.2 million, or \$27.0 million of the \$39.5 million overall increase.

To enhance transparency of DCS' costs incurred in delivering support services, the Baseline creates new support services line items for major service categories, including CMDP, Parent Aide, Supervised Visitation, Substance Abuse and Mental Health Services, Transportation, and Other Support Services. *Table 4* shows the funding transferred into each of the new line items.

The new support services budget structure will not result in a net increase of line items to be administered by the department because the Baseline also includes a consolidation of DCS' additional operating resources within the department's overall operating budget, including the line items for New Case Aides, General Counsel, the Inspections Bureau, Records Retention, and Retention Pay. In addition, the Overtime Pay line is

transferred to the Caseworkers line item in accordance with the department's FY 2019 budget submittal. (See *Table 5*.)

Table 5

DCS Operating Resources Consolidation

	FY 2018 <u>Appropriation</u>	Operating Budget <u>Transfer</u>	Overtime <u>Transfer</u>	FY 2019 <u>Baseline</u>
Operating Budget ^{1/}	110,137,600	8,015,200		118,152,800
Caseworkers ^{1/}	99,845,400		8,387,300	108,232,700
New Case Aides	3,077,100	(3,077,100)		0
General Counsel	156,200	(156,200)		0
Inspections Bureau	2,480,300	(2,480,300)		0
Overtime Pay	8,387,300		(8,387,300)	0
Records Retention Staff	594,600	(594,600)		0
Retention Pay	<u>1,707,000</u>	<u>(1,707,000)</u>		<u>0</u>
	226,385,500	0	0	226,385,500

^{1/} FY 2019 Baseline amounts exclude removal of one-time health insurance adjustment.

Line Item Transfers

DCS' appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative review. However, given the magnitude of line item transfers made by DCS in FY 2015 and FY 2016, a FY 2017 General Appropriation Act footnote requires DCS to submit proposed line items to JLBC for review prior to executing transfers. The budget continued this footnote in FY 2018.

Table 6 shows General Fund transfers from FY 2017. The FY 2019 Baseline adjusts the General Fund appropriation by line item to account for some of these transfers:

Table 6

DCS General Fund Transfers

	FY 2017 Appropriation	FY 2017 Transfers	Final FY 2017 Appropriation	FY 2018 Appropriation	Baseline Transfers	FY 2019 Baseline
Foster Home Placement	\$30,187,500	\$(4,000,000)	\$26,187,500	\$30,187,500	\$(4,000,000)	\$26,187,500
Congregate Group Care	41,028,000	2,100,000	43,128,000	41,028,000	0	41,028,000
Kinship Care	1,000,000	(259,000)	741,000	2,000,000	0	2,000,000
Independent Living ^{1/}	2,969,300	(705,000)	2,264,300	2,969,300	(705,000)	3,258,500
Adoption Services	75,965,800	3,696,000	79,661,800	77,965,800	5,537,000	83,502,800
Permanent Guardianship	10,573,900	(832,000)	9,741,900	10,573,900	(832,000)	9,741,900

^{1/} The Baseline also transfers \$994,200 of General Fund monies to the Independent Living line item as part of the realignment of Support Services.

- \$(4.0) million from the Foster Home Placement line item.
- \$(0.7) million from Independent Living.
- \$(0.8) million from Permanent Guardianship.
- An increase of \$5.5 million for Adoption Services in FY 2019.

The Baseline transfer into adoption is higher than the line item transfer from FY 2017 as a result of higher-than-budgeted adoption caseloads year-to-date in FY 2018. The Congregate Group Care transfer of \$2.1 million and the \$(0.3) million decrease from Kinship Care from FY 2017 are not included in the FY 2019 Baseline. These transfers are expected to be one-time due to declining Congregate Group Care caseloads and the expansion of eligibility for the Kinship Stipend in FY 2018.

DCS Reporting Requirements

Laws 2017, Chapter 282 requires DCS to post a consolidated reporting proposal on the department's website, hold stakeholder meetings and identify potential new reporting metrics. DCS shall also submit a report to JLBC and the DCS Oversight Committee on or before December 31, 2017 describing the implementation of the new reporting structure, the outcome of stakeholder meetings, and any new reporting metrics that are identified.

Table 7

**Department of Child Safety Total Fund Expenditures ^{1/}
(\$ in Millions)**

Fiscal Year	Expenditures	Reports of Child Maltreatment
2008	\$509.9	34,989
2009	\$487.6	33,186
2010	\$448.9	33,839
2011	\$478.8	34,904
2012	\$561.2	40,517
2013	\$625.8	44,119
2014	\$710.9	45,368
2015	\$846.2	51,075
2016	\$939.0	49,135
2017 Actual	\$923.6	47,275
2018 Appropriation	\$977.4	TBD

^{1/} Total Fund expenditures include monies directly appropriated to DCS. Excludes monies appropriated to the Arizona Department of Administration (ADOA) for one-time agency startup funding and CHILDS replacement.

Table 8

FY 2018 Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source	Operating Budget	Caseworkers	New Case Aides	Attorney General	Inspections Bureau	OCWI	Overtime Pay	Records Retention	Training Resources
AHCCCS	\$9.0	\$0.0	\$0.0	\$0.0	\$0.1	\$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
CAPTA	0.4	0.0	0.0	0.0	0.1	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
Chafee ETV	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
HF FTF	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
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SSBG	0.0	5.5	0.0	1.4	0.0	0.0	0.0	0.0	0.0
IV-B I CWS	1.5	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPCV	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPSS	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-E Adoption	2.9	2.0	0.0	0.7	0.1	0.0	0.2	0.0	0.0
IV-E Foster Care	14.0	10.3	0.1	3.2	0.3	0.0	0.8	0.1	9.0
Over/(Under) Allocated Authority	7.0	9.2	0.5	1.5	0.0	0.1	0.9	0.0	0.0
Total	\$35.3	\$33.3	\$0.6	\$6.8	\$0.6	\$0.1	\$1.9	\$0.1	\$9.0

Table 8 (Continued)

FY 2018 Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source	Adoption Services	Emergency & Residential	Foster Care	Foster Care HRSS	Independent Living	Child Care	In-Home Mitigation	Preventive Services	Out-of-Home Services	Total
AHCCCS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	43.0	52.1
AIPP	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
CAPTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
CBCAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.7
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Chafee IL	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.0	3.5	5.3
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0	6.1
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0	4.4
SSBG	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.7
IV-B I CWS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.8
IV-B II FPCV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
IV-B II FPSS	1.5	0.0	0.0	0.0	0.0	0.0	4.4	0.0	0.0	6.4
IV-E Adoption	141.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	147.0
IV-E Foster Care	0.0	34.6	22.4	12.3	0.0	14.1	0.0	0.0	15.5	136.7
Over/(Under) Allocated Authority	3.9	1.0	0.0	0.5	1.7	0.1	1.4	0.0	8.7	35.0
Total	147.1	41.4	22.4	12.8	1.7	14.2	5.8	11.1	71.2	415.5

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Child Abuse Prevention Fund (CHA2162/A.R.S. § 8-550.01)		Appropriated
Source of Revenue: A portion of monies (1.93%) from statutory filing and copy fees collected by the Superior Court and all funds received through check-off contributions on the Arizona tax form. Monies also may come from a surcharge on certified copies of death certificates when revenues from the surcharge exceed \$100,000 for the year.		
Purpose of Fund: To provide financial assistance to community treatment programs, benefiting abused children and their parents or guardians. An amount of not more than 5% may be expended for administrative expenses related to the fund.		
Funds Expended	1,000,000	1,459,300
Year-End Fund Balance	984,000	238,200
Child Restraint Fund (CHA2192/A.R.S. § 28-907)		Non-Appropriated
Source of Revenue: Fines or penalties from parents, guardians, or legal custodians who fail to sufficiently restrain in children under the age of 8 in motor vehicles.		
Purpose of Fund: To purchase child passenger restraint systems and provide them to hospitals for loan to indigent persons. Monies in the fund shall not exceed \$20,000. All monies collected over \$20,000 shall be deposited in the Arizona Highway User Revenue Fund.		
Funds Expended	0	0
Year-End Fund Balance	164,800	299,800
Child Safety Expedited Substance Abuse Treatment Fund (CHA2421/A.R.S. § 8-812)		Non-Appropriated
Source of Revenue: Appropriations from the state General Fund.		
Purpose of Fund: To provide expedited drug treatment to guardians and parents when a dependency case plan calls for treatment. Expenditures from this fund are not displayed to avoid double counting General Fund monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Child Safety Expenditure Authority (CHA2009/A.R.S. § 41-101.01)		Expenditure Authority
Source of Revenue: All non-appropriated funds and Federal Funds for the Department of Child Safety, excluding the Federal Temporary Assistance for Needy Families Block Grant, the Federal Child Care and Development Fund, the Client Trust Fund, the Child Restraint Fund, and the Economic Security Donations Fund.		
Purpose of Fund: To fund the Department of Child Safety.		
Funds Expended	371,629,700	415,540,800
Year-End Fund Balance	0	0
Children and Family Services Training Program Fund (CHA2173/A.R.S. § 8-503.01)		Appropriated
Source of Revenue: A portion of monies collected from fees charged for copies of child welfare files and assessments against legally responsible parties for the support of a child in the state's custody. The fund receives 90% of the revenues collected. The remaining 10% of revenues are credited to the General Fund.		
Purpose of Fund: To administer training for child safety workers and employees in related programs. The monies cannot be used to pay salaries or expenses of the training staff. Up to 10% of the monies may be used to enhance the collection of monies owed to the agency. Any monies collected from fees for copies of child welfare files may be used only for reimbursing the department for its cost.		
Funds Expended	78,400	207,100
Year-End Fund Balance*	0	(152,000)
Client Trust Fund (CHA3152/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DCS.		
Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	0	0
Year-End Fund Balance	5,104,300	6,554,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Economic Security Donations Fund (CHA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
Source of Revenue: Grants, gifts, or bequests.		
Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest.		
Funds Expended	0	0
Year-End Fund Balance	230,000	235,000
Federal CCDF Block Grant (CHA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs, providing child care to welfare recipient parents, and implementing licensing standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. DES has a separate allocation of CCDF.		
Funds Expended	27,000,000	27,000,000
Year-End Fund Balance	0	0
Federal TANF Block Grant (CHA2007/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families. DES has a separate allocation of TANF.		
Funds Expended	149,461,100	149,472,700
Year-End Fund Balance	11,600	11,600
Joint Substance Abuse Treatment Fund (CHA2429/A.R.S. § 8-881)		Non-Appropriated
Source of Revenue: Legislative appropriations from the General Fund and the Federal Temporary Assistance for Needy Families Block Grant.		
Purpose of Fund: To be jointly administered by DCS and the Department of Health Services for services to families and Federal Temporary Assistance for Needy Families recipients involved with DCS and whose substance abuse is a significant barrier to maintaining, preserving, or reunifying the family. An amount of not more than 5% can be used for program development costs. Up to 10% can be used for evaluating community programs delivering the services. Expenditures from this fund are not displayed to avoid double counting appropriated monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Risk Management Revolving Fund (ADA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to state agencies, boards, and commissions insured under the state's risk management system, as well as recoveries by the state through litigation.		
Purpose of Fund: To pay claim costs, administrative program costs, and to purchase insurance for coverage for losses not covered under the self-insured limits.		
Funds Expended	0	2,471,200
Year-End Fund Balance	0	0

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

State Board of Chiropractic Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	90,300
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	104,300
Equipment	27,100	0	0
AGENCY TOTAL	451,100	455,100	451,100

FUND SOURCES

Other Appropriated Funds

Board of Chiropractic Examiners Fund	451,100	455,100	451,100
SUBTOTAL - Other Appropriated Funds	451,100	455,100	451,100
SUBTOTAL - Appropriated Funds	451,100	455,100	451,100
TOTAL - ALL SOURCES	451,100	455,100	451,100

AGENCY DESCRIPTION - The board licenses, investigates, and regulates chiropractors who practice a system of therapy in which disease is considered the result of neural malfunction. Manipulation of the spinal column and other structures is the preferred method of treatment.

Operating Budget

* * *

The Baseline includes \$451,100 and 5 FTE Positions from the Board of Chiropractic Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Other Issues

One-Time Relocation Costs

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(4,000) from the Board of Chiropractic Examiners Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Chiropractic Examiners Fund (CEA2010/A.R.S. § 32-906)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of chiropractors. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate chiropractors, and for board administration.		
Funds Expended	451,100	455,100
Year-End Fund Balance	232,100	231,900

Citizens Clean Elections Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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*.

Table 1
Clean Elections Fund Transfers to General Fund

Fiscal Year	Transfer
FY 2003	\$ 1,774,600
FY 2004	3,828,000
FY 2005	973,900
FY 2006	2,500,000
FY 2008	18,876,200
FY 2009	7,000,000
FY 2010	10,000,000
FY 2011	20,000,000
FY 2012	<u>10,000,000</u>
Total	\$74,952,700

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Citizens Clean Elections Fund (ECA2425/A.R.S. § 16-949)		Non-Appropriated
<p>Source of Revenue: Election-related civil penalties; civil and criminal fine and penalty surcharges; "qualifying contributions" on behalf of candidates who seek public campaign funding. Prior to FY 2013, the commission also generated revenues from a check-off box on state income tax forms and tax credits. Laws 2012, Chapter 257 repealed those provisions.</p> <p>Purpose of Fund: To fund administrative costs of the Citizens Clean Elections Commission, campaigns of candidates who qualify for public campaign funding under A.R.S. § 16-950, and activities pertaining to voter education.</p>		
Funds Available		
Balance Forward	26,318,700	26,640,300
Revenue:		
Court Assessments	7,260,700	7,000,000
Qualifying Contributions	177,500	200,000
Refunds	87,500	0
Other Fines, Forfeitures, Penalties	6,300	0
\$5 Check Off Box	<u>200</u>	<u>0</u>
Total Funds Available	33,850,900	33,840,300
Expenditures:		
Operating Funds Expended	5,366,200	7,811,000
Candidate Funding	<u>1,844,400</u>	<u>11,317,700</u>
Funds Expended	7,210,600	19,128,700
Transfers Out to General Fund	<u>0</u>	<u>0</u>
Year-End Fund Balance	26,640,300	14,711,600

Arizona Commerce Authority

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET	10,000,000	10,000,000	10,000,000
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	11,500,000	11,500,000	11,500,000
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 Baseline 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 Baseline 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. Additionally, the fund also receives a non-appropriated deposit of \$3,500,000 in lottery revenues. *(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 2017 award recipients.)*

Mexico City Trade Office

The Baseline 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.

* * *

FOOTNOTES

Standard Footnotes

Pursuant to A.R.S. § 43-409, \$21,500,000 of 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.

Other Issues

Arizona Competes Fund Expenditures

ACA made \$55.2 million in commitments and expended \$35.5 million from the Competes Fund from FY 2012 through FY 2017. See *Table 1* for expenditures and commitments by fiscal year and *Table 2* for new grants awarded in FY 2017. (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 awarded to businesses that are expanding in or relocating to Arizona; 2) Arizona Innovation Challenge grants for early-stage start-up companies; and 3) Rural Economic Development grants that are awarded to local governments to improve infrastructure and attract businesses.

Table 1
Arizona 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	3,432,300
FY 2017	<u>13,551,500</u>	<u>4,345,300</u>
Total	\$55,160,800	\$35,490,900

Table 2

Arizona Competes Fund: FY 2017 Grant Commitments

<u>Recipients</u>	<u>Commitment</u>
Competes Fund Grants for Expansion/Relocation	
ADP	\$ 1,500,000
Caterpillar Global Mining LLC	4,000,000
DOT Foods	500,000
Farmers Insurance Exchange	500,000
McKesson Corporation	1,000,000
Orbital ATK, Inc.	2,500,000
Rogers Corporation	900,000
World View Enterprises	<u>1,000,000</u>
Total	\$11,900,000
Arizona Innovation Challenge Grants	
Attribyes	\$ 250,000
ClickIPO	250,000
Codelucida	250,000
Electric Torque Machines	250,000
Hydronalix	250,000
Naya Energy	<u>250,000</u>
Total	\$1,500,000
Rural Economic Development Grants	
City of Yuma	<u>\$151,500</u>
Total	\$151,500
Total FY 2017 Commitments	\$13,551,500

SUMMARY OF FUNDS

Application Fees Fund (CAA3005/A.R.S. § 41-1504)

Non-Appropriated

Source of Revenue: A processing fee equal to 1% of the relevant tax credit being refunded per tax credit application.

Purpose of Fund: To provide funding for staff to determine if taxpayers who qualify for a tax credit for increased research activities qualify for other income tax refunds. In FY 2017, the remaining balance of \$386,400 from the Commerce Development Bond Fund was transferred to the Application Fees Fund.

	FY 2017 Actual	FY 2018 Estimate
Funds Expended	0	469,800
Year-End Fund Balance	2,253,300	2,684,900

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Commerce Authority Fund (CAA2547/A.R.S. § 41-1506)		Non-Appropriated
<i>Source of Revenue:</i> An annual deposit of \$10,000,000 in corporate income tax withholding revenues, gifts, grants, and other donations. Expenditures are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$9,720,300 in FY 2017.		
<i>Purpose of Fund:</i> To fund the operating costs of the Authority.		
Funds Expended	0	0
Year-End Fund Balance	1,523,700	766,600
Arizona Commerce Authority Carryover Fund (CAA1001/A.R.S. § 41-1504)		Non-Appropriated
<i>Source of Revenue:</i> The remaining \$13,991,325 in left-over funds transferred from various funds belonging to the Arizona Department of Commerce and any residual FY 2011 revenue collected in FY 2012.		
<i>Purpose of Fund:</i> To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
Funds Expended	765,900	2,062,800
Year-End Fund Balance	1,819,300	153,100
Arizona Commerce Authority Local Communities Fund (EPA2498/A.R.S. § 41-1505.12)		Non-Appropriated
<i>Source of Revenue:</i> Tribal contributions from gaming revenue. The Tribal-State Gaming Compact dictates that 12% of revenues received by the state be utilized for government services benefiting the general public. The tribes can grant funds directly to communities or deposit revenues into the CEDC Local Communities Fund. Any monies remaining in this fund at the end of FY 2011 were transferred to the Arizona Commerce Authority Carryover Fund. Beginning in FY 2012, any remaining revenues to this fund were redirected to the Arizona Commerce Authority Carryover Fund.		
<i>Purpose of Fund:</i> To provide grants to cities, towns and counties for government services that benefit the general public including public safety, the mitigation of impacts of gaming or the promotion of commerce and economic development. All grant applications must have a written endorsement of a nearby Indian tribe to receive an award from the commission.		
Funds Expended	100	0
Year-End Fund Balance	0	0
Commerce Development Bond Fund (CAA2196/A.R.S. § 41-1504)		Partially-Appropriated
<i>Source of Revenue:</i> Filing fees and charges for services related to the provision of a registry of bond allocations.		
<i>Purpose of Fund:</i> To pay for the review and approval of all corporate bond financing related to the construction of multi-family apartments, sanitariums, clinics, medical hotels, retirement homes, skilled nursing facilities and life-care centers. Laws 2016, Chapter 372 created the Arizona Finance Authority, which is now responsible for the state's bond allocations. As a result, ACA has consolidated the Commerce Development Bond Fund with the Application Fees Fund.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	386,400	0
Year-End Fund Balance	0	0
Arizona Competes Fund (CAA2548/A.R.S. § 41-1545.01)		Non-Appropriated
<i>Source of Revenue:</i> Receives an annual deposit of \$11,500,000 in income tax withholding revenues, \$3,500,000 in lottery ticket sales revenues, gifts, grants, and other donations. Expenditures of the income tax withholding revenues are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$8,596,000 in FY 2017.		
<i>Purpose of Fund:</i> To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
Funds Expended	0	0
Year-End Fund Balance	37,512,300	37,923,900

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Donations Fund (CAA3189/A.R.S. § 41-1504)		Non-Appropriated
<i>Source of Revenue:</i> Gifts, grants, and donations.		
<i>Purpose of Fund:</i> To be expended in accordance with the restrictions placed on the respective gift, grant, or donation.		
Funds Expended	173,200	13,000
Year-End Fund Balance	98,100	85,100
Federal Funds (CAA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants for community development, job training, and home programs.		
<i>Purpose of Fund:</i> To be expended as stipulated by federal statutes authorizing the federal grants.		
Funds Expended	1,420,100	1,550,100
Year-End Fund Balance*	(378,600)	(378,700)
Arizona Innovation Accelerator Fund (CAA9507/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> The U.S. Department of Treasury State Small Business Credit Initiative Act of 2010.		
<i>Purpose of Fund:</i> To fund state created programs that increase the amount of capital made available by private lenders to small businesses.		
Funds Expended	127,200	153,600
Year-End Fund Balance	18,305,100	18,631,200
Job Training Fund (CAA1237/A.R.S. § 41-1544)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations, gifts, grants, and interest earned on investments. The FY 2015 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) repealed the job training tax effective December 31, 2015 that had been previously deposited into the fund. Laws 2017, Chapter 307 allows ACA to continue to make grants from the fund until December 31, 2020, and grantees must expend all funds by June 30, 2022 when the fund expires. Any monies in the fund as of the repeal date shall be transferred to the General Fund.		
<i>Purpose of Fund:</i> To provide training and retraining for specific employment opportunities with new and expanding businesses or businesses undergoing economic conversion. Training shall be through the community college system, a licensed private postsecondary educational institution, or a community college operated by a tribal government, unless the employer requests another qualified training provider. Of the monies appropriated to the fund, 25% is set aside for rural and small businesses.		
Funds Expended	4,095,400	5,400,000
Year-End Fund Balance	32,224,300	27,094,500
Mexico Trade Office (CAA9972/A.R.S. § 41-1504)		Non-Appropriated
<i>Source of Revenue:</i> Donations from government and private entities. This fund does not include the annual \$300,000 General Fund appropriation for the operation of the Mexico City Trade Office.		
<i>Purpose of Fund:</i> Used to supplement the \$300,000 annual appropriation for the operation of the Mexico City Trade Office.		
Funds Expended	119,600	0
Year-End Fund Balance	149,800	149,800
RevAZ Fund (CAA9971/A.R.S. § 41-1504)		Non-Appropriated
<i>Source of Revenue:</i> Fees paid by private-sector entities for services in conjunction with the federal Manufacturing Extension Partnership.		
<i>Purpose of Fund:</i> To provide services related but separate from the Federal Manufacturing Extension Partnership. Services are provided both by ACA staff as well as independent contractors.		
Funds Expended	92,500	29,000
Year-End Fund Balance	234,600	705,600

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

Arizona Community Colleges

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	2,596,700
Rural County Reimbursement Subsidy	1,273,800	1,273,800	1,273,800
Tribal Community Colleges	2,625,000	2,625,000	2,825,000
Additional Gila Workforce Development Aid	0	250,000	200,000
AGENCY TOTAL	54,312,700	55,086,500	56,899,900
FUND SOURCES			
General Fund	54,312,700	55,086,500	56,899,900
SUBTOTAL - Appropriated Funds	54,312,700	55,086,500	56,899,900
Other Non-Appropriated Funds	18,869,500	19,674,400	19,674,400
TOTAL - ALL SOURCES	73,182,200	74,760,900	76,574,300

AGENCY DESCRIPTION — The Arizona community college system is comprised of 10 college districts and 2 provisional districts. Arizona's community colleges provide programs and training in the arts, sciences and humanities, and vocational education leading to an Associate's degree, Certificate of Completion, or transfer to a Baccalaureate degree-granting college or university.

Operating State Aid

The Baseline includes \$16,633,800 from the General Fund in FY 2019 for Operating State Aid. FY 2019 adjustments are as follows:

Enrollment Changes

The Baseline 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, restores 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 Baseline 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 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.)

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	<u>5,313</u>	<u>5,305</u>	<u>(0.2)%</u>
Total	29,224	29,097	(0.4)%

STEM and Workforce Programs State Aid

The Baseline 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 Baseline includes a decrease of \$(1,000) from the General Fund in FY 2018 to fund STEM and Workforce Programs State Aid.

As permanent law, the FY 2016 Higher Education BRB eliminated STEM and Workforce Program State Aid for Maricopa and Pima County. The FY 2018 Higher Education BRB, however, restores eligibility for STEM and Workforce Programs State Aid funding for Maricopa and Pima County in permanent law. As session law, however, the FY 2018 Higher Education BRB suspended the program's funding formula for FY 2018 and instead funded the amounts specified in the General Appropriation Act, which total to \$4,698,500, and included no funding for Maricopa and Pima.

The Baseline 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 Baseline includes \$28,673,100 from the General Fund in FY 2019 for Equalization Aid. FY 2019 adjustments are as follows:

Property Value Changes

The Baseline 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	<u>6,672,100</u>	<u>435,000</u>	<u>7,107,100</u>
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.)

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.

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	<u>1,316,941,500</u>	<u>1,358,691,500</u>	<u>3.2%</u>
Total	\$10,953,050,400	\$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.

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 Baseline includes \$2,596,700 from the General Fund in FY 2019 for Rural County Allocation. This amount is unchanged from FY 2018.

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 2017, the JLBC Staff reported the amount to be \$2,596,700 for FY 2018. This FY 2018 amount is used as an approximation for FY 2019 until the calculation is finalized in May 2018.

Monies for the Rural County Allocation are authorized by A.R.S. § 15-1469.01, and therefore do not appear in the General Appropriation Act.

Rural County Reimbursement Subsidy

The Baseline 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 FY 2019 Baseline allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The Baseline 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 Baseline 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 Baseline 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 Baseline also assumes that \$200,000 will be distributed to Tohono O’Odham Community College.

Additional Gila Workforce Development Aid

The Baseline includes \$200,000 for Additional Gila Workforce Development Aid in FY 2019. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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 includes \$200,000 for Gila County in FY 2019 and FY 2020.

* * *

FORMAT — District-by-District Special Line Items

FOOTNOTES

Standard Footnotes

Of the \$1,273,800 appropriated to the Rural County Reimbursement Subsidy line item, Apache County receives \$699,300 and Greenlee County receives \$574,500.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to suspend the Operating State Aid formula funding in FY 2019 for Maricopa and Pima Counties.
- As session law, continue to suspend the STEM and Workforce Programs funding formula for FY 2019 and specify funding in the General Appropriation Act, which for Pinal would again equal \$96,500.

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>	(2.4)%
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

Beyond FY 2019 Baseline changes, the JLBC Staff estimates that Community College statutory caseload changes will require an additional \$1,084,500 in FY 2020 and an additional \$1,248,500 in FY 2021.

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.

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.)

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

Table 5

Community College Tax Rates – FY 2018

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) %

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.

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.)

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.

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 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 \$494,087,100, 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

General/Restricted Funds	Total	% of Total
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	85,410,300	4%
Subtotal	\$1,615,236,100	75%
Auxiliary Enterprises Fund	\$ 163,549,200	8%
Plant Fund	180,772,300	8%
Debt Service	191,025,500	9%
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Tribal Assistance Fund (No Fund Number/A.R.S. § 42-5029)		Non-Appropriated
Source of Revenue: A portion of the 0.6% education sales tax. The law directs each qualifying tribal community college to receive distributions in the same manner as the transfers to individual community college district workforce development accounts. A "qualifying Indian tribe" is an Indian tribe that owns, operates, and charters any community college located on its own reservation in this state.		
Purpose of Fund: To fund workforce development and job training activities at a community college owned, operated, or chartered by a qualifying Indian tribe.		
Funds Expended	770,000	767,600
Year-End Fund Balance	0	0
Workforce Development Accounts (varies by account/A.R.S. § 15-1472)		Non-Appropriated
Source of Revenue: Three percent of collections from the 0.6% education sales tax, after debt service on state school facilities revenue bonds has been paid. This funding was authorized by voter approval of Proposition 301 in the November 2000 General Election.		
Purpose of Fund: To fund workforce development and training activities at the community college districts.		
Funds Expended	18,099,500	18,906,800
Year-End Fund Balance	0	0

Constable Ethics Standards and Training Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Constable Ethics Standards and Training (CNA2346/A.R.S. § 22-138)		Non-Appropriated
Source of Revenue: Fees collected for every writ served on behalf of a Justice of the Peace.		
Purpose of Fund: 80% to fund constable training, equipment and related grants and 20% to fund operating expenses for the board.		
Funds Expended	298,300	445,400
Year-End Fund Balance	322,700	178,700

Registrar of Contractors

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	2,296,400
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	1,945,700
Equipment	92,600	517,000	517,000
OPERATING SUBTOTAL	8,173,300	11,250,800	11,147,800
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	322,900	1,017,600	1,017,600
AGENCY TOTAL	8,496,200	12,268,400	12,165,400
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Registrar of Contractors Fund	8,496,200	12,268,400	12,165,400
SUBTOTAL - Other Appropriated Funds	8,496,200	12,268,400	12,165,400
SUBTOTAL - Appropriated Funds	8,496,200	12,268,400	12,165,400
Other Non-Appropriated Funds	2,216,600	4,666,800	4,666,800
TOTAL - ALL SOURCES	10,712,800	16,935,200	16,832,200

AGENCY DESCRIPTION — The agency licenses, regulates and conducts examinations of residential and commercial construction contractors.

Operating Budget

* * *

The Baseline includes \$11,147,800 and 105.6 FTE Positions from the Registrar of Contractors Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(103,000) from the Registrar of Contractors Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* section.)

Office of Administrative Hearings Costs

The Baseline 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.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the footnote requiring Joint Legislative Budget Committee review of any transfer to or from the Office of Administrative Hearings Costs line item.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Registrar of Contractors Fund (RGA2406/A.R.S. § 32-1107)		Appropriated
Source of Revenue: Monies collected from the examination and licensing of contractors. The agency retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate contractors, and for board administration.		
Funds Expended	8,496,200	12,268,400
Year-End Fund Balance	9,096,800	4,528,000
Residential Contractors' Recovery Fund (RGA3155/A.R.S. § 32-1132)		Non-Appropriated
Source of Revenue: An assessment, not to exceed \$600 per biennial license period, paid by residential contractors and other monies.		
Purpose of Fund: To compensate anyone who is injured by an act, a representation, a transaction, or the conduct of a residential contractor. Compensation for damages to any one individual cannot exceed \$30,000. Up to 14% of prior fiscal year revenue may be used to administer the fund.		
Funds Expended	2,216,600	4,666,800
Year-End Fund Balance	12,433,600	12,550,500

Corporation Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9
Personal Services	15,738,200	15,905,400	15,905,400
Employee Related Expenditures	5,854,100	6,183,600	5,850,900
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	2,695,700
Equipment	327,600	282,000	282,000
OPERATING SUBTOTAL	25,731,600	26,492,600	26,159,900
SPECIAL LINE ITEMS			
Corporation Filings, Same-Day Service	0	401,300	397,300
Corporations Division Database Upgrade	250,000	0	0
Utilities Audits, Studies, Investigations & Hearings	0	380,000	380,000
AGENCY TOTAL	25,981,600	27,273,900	26,937,200
FUND SOURCES			
General Fund	859,600	621,500	611,600
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	47,000	51,600	49,900
Investment Management Regulatory and Enforcement Fund	666,600	717,500	708,900
Public Access Fund	6,555,300	6,638,100	6,558,800
Securities Regulatory and Enforcement Fund	4,325,200	4,969,300	4,909,600
Utility Regulation Revolving Fund	13,527,900	14,275,900	14,098,400
SUBTOTAL - Other Appropriated Funds	25,122,000	26,652,400	26,325,600
SUBTOTAL - Appropriated Funds	25,981,600	27,273,900	26,937,200
Federal Funds	1,032,700	825,000	825,000
TOTAL - ALL SOURCES	27,014,300	28,098,900	27,762,200

AGENCY DESCRIPTION — The Arizona Corporation Commission (ACC) was established by Article 15 of the Arizona Constitution and consists of 5 statewide elected Commissioners, each serving 4-year terms. The commission has 3 primary responsibilities. The Corporations Division provides public access to corporate annual reports, articles of incorporation, and corporate status change documents. The Securities Division regulates securities dealers and investment advisers. The Utilities Division monitors approximately 500 public service corporations operating in Arizona and establishes public utility rates. Other functions of the commission include inspecting gas pipelines and railroad track.

Operating Budget

The Baseline includes \$26,159,900 and 298.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$611,600
Arizona Arts Trust Fund	49,900
Investment Management Regulatory and Enforcement Fund	708,900
Public Access Fund	6,161,500

Securities Regulatory and Enforcement Fund	4,909,600
Utility Regulation Revolving Fund	13,718,400

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(332,700) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustments. This amount consists of:

General Fund	(9,900)
Arizona Arts Trust Fund	(1,700)

Investment Management Regulatory and Enforcement Fund	(8,600)
Public Access Fund	(75,300)
Securities Regulatory and Enforcement Fund	(59,700)
Utility Regulation Revolving Fund	(177,500)

(Please see the Technical Budget Assumptions section.)

Corporation Filings, Same-Day Service

The Baseline includes \$397,300 and 2 FTE Positions from the Public Access Fund in FY 2019 for Corporation Filings, Same-Day Service. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(4,000) from the Public Access Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

A footnote in the General Appropriation Act specifies that monies in this line item revert to the Public Access Fund if the commission has not established a same-day service pursuant to A.R.S. § 10-122. The fee for same-day and next-day services must be determined by a supermajority vote of the Commissioners. To date, such a fee has not been set and same-day and next-day services have not been implemented.

Utilities Audits, Studies, Investigations & Hearings

The Baseline includes \$380,000 from the Utility Regulation Revolving Fund in FY 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The \$397,300 appropriated from the Public Access Fund for the Corporation Filings, Same-Day Service line item reverts to the Public Access Fund established by A.R.S. § 10-122.01 at the end of FY 2019 if the commission has not established a same-day service pursuant to A.R.S. § 10-122.

The \$380,000 appropriation from the Utility Regulation Revolving Fund for the Utilities, Audits, Studies, Investigations & Hearings Special Line Item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

New Footnotes

On or before August 1, 2018, the Corporation Commission shall report to the Joint Legislative Budget Committee the total expenditures from the Small Drinking Water Systems Fund in FY 2018 for grants to interim operators of small drinking water systems. (The FY 2017 budget appropriated \$500,000 to the Small Water Systems Fund - later renamed as the Small Drinking Water Systems Fund - for emergency grants to interim operators of small water systems, and required the Corporation Commission and the Water Infrastructure Finance Authority to jointly report on the expenditures for grants. This footnote would continue the reporting requirement for grants using the remaining monies in the Small Drinking Water Systems Fund.)

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Arts Trust Fund (CCA3043/A.R.S. § 41-983.01)		Appropriated
Source of Revenue: One-third of the filing fees for the annual report of domestic and foreign corporations.		
Purpose of Fund: For grants under the Arizona arts program and for other expenditures as authorized by the chairman of the Arizona Arts Commission. The Corporation Commission funds 1 FTE Position with these monies to assist in collecting the fee, with the remainder transferred to the Arts Commission.		
Funds Expended	47,000	51,600
Year-End Fund Balance	3,700	3,700

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Funds (CCA2000/A.R.S. § 40-441)		Non-Appropriated
Source of Revenue: U.S. Department of Transportation grants.		
Purpose of Fund: To pay up to 50% of the costs associated with the inspection of interstate pipelines transporting gas and hazardous liquids, and conduction of a pipeline safety program.		
Funds Expended	1,032,700	825,000
Year-End Fund Balance	3,788,700	3,963,700
IGA and ISA Fund (CCA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	0	0
Year-End Fund Balance	6,200	6,200
Investment Management Regulatory and Enforcement Fund (CCA2404/A.R.S. § 44-3298)		Appropriated
Source of Revenue: Fees from licensing of investment advisors and investment advisor representatives, and from costs recovered from enforcement actions associated with the licensing.		
Purpose of Fund: For education, regulatory, investigative and enforcement operations in the Securities Division.		
Funds Expended	666,600	717,500
Year-End Fund Balance	3,879,600	6,227,100
Pipeline Safety Revolving Fund (CCA2174/A.R.S. § 40-443)		Appropriated
Source of Revenue: Revenues from civil penalties and fines assessed for the violation of any law, rule, or order pertaining to the safety of the transportation of gas and hazardous liquids, and pipeline facilities.		
Purpose of Fund: For expenses associated with gas and hazardous liquids pipeline facilities safety, including public education, training, purchasing equipment, and inspections.		
Funds Expended	0	0
Year-End Fund Balance	144,200	144,200
Public Access Fund (CCA2333/A.R.S. § 10-122.01)		Appropriated
Source of Revenue: Fees for expedited service for the filing of articles of incorporation and other documents.		
Purpose of Fund: To cover a part of the commission's administrative and legal expenses as well as costs associated with an improved data processing system that allows direct, online access by any person at a remote location to all public records concerning corporations and associations.		
Funds Expended	6,555,300	6,638,100
Year-End Fund Balance	2,616,100	3,443,300
Securities Regulatory and Enforcement Fund (CCA2264/A.R.S. § 44-2039)		Appropriated
Source of Revenue: Registration and transfer of registration fees for securities dealers and salesmen, and from registration fees for securities exchanges established in the state.		
Purpose of Fund: For education, regulatory, investigative, and enforcement operations in the Securities Division.		
Funds Expended	4,325,200	4,969,300
Year-End Fund Balance	2,198,800	2,448,500
Utility Regulation Revolving Fund (CCA2172/A.R.S. § 40-408)		Appropriated
Source of Revenue: Assessments against public utilities regulated by the commission, as defined by A.R.S. § 40-401.		
Purpose of Fund: For all expenses incurred by the Utilities Division, including attorneys and legal staff, auditors, economists and other staff employed by the division.		
Funds Expended	13,527,900	14,275,900
Year-End Fund Balance	4,043,200	6,973,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Utility Siting Fund (CCA2076/A.R.S. § 40-360.09)		Non-Appropriated
Source of Revenue: Fees paid for applications to the Power Plant and Transmission Line Siting Committee for proposed and expanded power plants and transmission lines.		
Purpose of Fund: For costs incurred by the Power Plant and Transmission Line Siting Committee in connection with the activities of the committee.		
Funds Expended	0	0
Year-End Fund Balance	49,800	59,800

State Department of Corrections

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9,541.0	9,541.0	9,541.0
Correctional Officer Personal Services	312,727,800	325,152,600	317,526,300
Health Care Personal Services	2,684,900	2,719,600	2,719,600
All Other Personal Services	63,332,400	63,450,900	62,013,200
Personal Services Subtotal	378,745,100	391,323,100	382,259,100
Employee Related Expenditures	190,095,100	226,772,200	209,020,600
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	110,246,600
Equipment	4,821,700	4,677,800	4,542,900
Non-Health Care Operating Subtotal	159,593,700	164,930,500	160,799,600
OPERATING SUBTOTAL	775,172,400	801,146,100	769,958,500
SPECIAL LINE ITEMS			
Community Corrections	0	0	18,862,300
Radio Equipment	2,728,000	0	0
Private Prison Per Diem	145,992,800	169,220,200	169,220,200
Inmate Health Care Contracted Services	134,979,100	148,811,700	148,811,700
Named Claimants	6,900	0	0
AGENCY TOTAL	1,058,879,200	1,119,178,000	1,106,852,700
FUND SOURCES			
General Fund	1,028,851,400	1,067,624,800	1,055,305,000
<u>Other Appropriated Funds</u>			
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	386,300
Penitentiary Land Fund	979,300	2,062,500	2,062,500
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	2,661,500
State Education Fund for Correctional Education	609,900	675,000	669,500
Transition Program Fund	2,221,100	2,400,100	2,400,100
SUBTOTAL - Other Appropriated Funds	30,027,800	51,553,200	51,547,700
SUBTOTAL - Appropriated Funds	1,058,879,200	1,119,178,000	1,106,852,700

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	1,186,977,500	1,174,359,200

AGENCY DESCRIPTION — The Arizona Department of Corrections (ADC) maintains and administers a statewide system of prisons for adult and minor offenders legally committed to the department. The department is also responsible for the supervision of offenders on parole and other prison release mechanisms, as specified by law.

Summary

The Baseline decreases Arizona Department of Corrections (ADC)'s General Fund spending by \$(12,319,800), or (1.2)%, in FY 2019 for the removal of a one-time health care adjustment.

General Fund	(12,319,800)
State Education Fund for Correctional Education	(5,500)

(Please see the Technical Assumptions section.)

The Baseline 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.

Operating Budget

The Baseline includes \$769,958,500 and 9,357 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$761,679,400
Alcohol Abuse Treatment Fund	555,500
Corrections Fund	3,000,800
Inmate Store Proceeds Fund	386,300
Prison Construction and Operations Fund	2,500,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,161,500
State Education Fund for Correctional Education	675,000

FY 2019 adjustments are as follows:

New Community Corrections Line Item

The Baseline includes a decrease of \$(18,862,300) and (184) FTE Positions 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.)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(12,325,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

Community Corrections

The Baseline includes \$18,862,300 and 184 FTE Positions in FY 2019 for a new Community Corrections line item. This amount consists of:

General Fund	16,344,200
Alcohol Abuse Treatment Fund	118,000
Transition Program Fund	2,400,100

Background – Monies in this line item are used to monitor offenders on community supervision or parole, operate 2 reentry centers, pay for a transition program, coordinate with other state parole offices, and provide electronic monitoring for certain offenders. In addition to the \$18,862,300 in appropriated funds, ADC utilizes an additional \$4,682,100 in non-appropriated funds for these activities.

As of June 30, 2017, ADC has responsibility for 5,319 offenders overseen by Community Corrections 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:

- Community Supervision Officers and Staff: The expenditures are projected to be \$9,222,900 for Personal Services and \$5,508,500 for Employee Related Expenditures. These amounts include the staffing costs for the reentry centers.

- 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 are located in homes or half-way houses across the state, and receive counseling through a vendor which includes substance abuse counseling and case management services. This program is funded by liquor taxes and inmate wages that are deposited in the Transition Program Fund at a cost of \$2,400,100.
- Other Outside Services and Vendors: ADC spends \$483,200 of appropriated monies and \$3,500,000 of non-appropriated monies for Professional and Outside Services. These services include vendors for the Community Accountability Program, drug testing, and other psychological and behavioral needs.
- 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 MRC 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 MRC and reentry counseling.

Private Prison Per Diem

The Baseline includes \$169,220,200 in FY 2019 for Private Prison Per Diem. This amount consists of:

General Fund	139,846,200
Corrections Fund	27,311,500
Penitentiary Land Fund	2,062,500

These amounts are unchanged from FY 2018.

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 Baseline includes \$148,811,700 in FY 2019 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	137,311,700
Prison Construction and Operations Fund	10,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

These amounts are unchanged from FY 2018.

The Baseline continues to assume that the department recovers \$8,500,000 of Medicaid savings annually for Medicaid reimbursement of the costs of outside health care. For FY 2017, ADC received a total of \$12,032,800 in gross savings. These annual savings were from services rendered in FY 2015, FY 2016, and FY 2017.

The Baseline does not include projections for the new contract that would begin on June 1, 2018. The department is currently evaluating bids for a new 10-year contract for inmate health care services.

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$12.54. 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

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.

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.

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.

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.

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.

Before the expenditure of any State Education Fund for Correctional Education monies in excess of \$669,500, the State Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee.

STATUTORY CHANGES

The Baseline would, as session law, continue to require the department to report FY 2018 actual expenditures, FY 2019 estimated expenditures, and FY 2020 requested expenditure amounts for each line item as delineated in the prior year when the department submits its FY 2020 budget request pursuant to A.R.S. § 35-113.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Employer Retirement Contribution
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - Bed Surplus/Shortfall

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, the department does not have any increases above FY 2019 in either FY 2020 or FY 2021.

Employer Retirement Contribution

The Baseline does not include funding for an employer contribution rate adjustment. ADC's FY 2018 Correctional Officer Retirement Plan employer rate is 21.17%. The employer rate contribution for ADC is expected to increase to 28.38% in FY 2019. *(Please see the Consolidated Retirement Report for more detailed analysis of the Correctional Officer Retirement Plan costs.)*

Bed Capacity Issues

Inmate Growth Rate

As of 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.

<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 Baseline assumes the inmate population will remain flat at the June 2017 level of 42,200 until FY 2021. As of November 28, 2017, the population was 42,039.

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

Table 3

Fiscal Year-End Operating Capacity

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) ^{1/}	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Eloy II (\$65.89) ^{1/}	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Subtotal ^{2/}	7,900	638	8,538	7,900	638	8,538	7,900	638	8,538
Total - All Beds ^{3/}	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 ^{4/}	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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Alcohol Abuse Treatment Fund (DCA2204/A.R.S. § 31-255)		Appropriated
Source of Revenue: The lesser of \$0.50 per hour or 67% of wages earned by inmates convicted of driving under the influence (DUI) offenses. The average charge for inmate labor is \$0.56 per hour.		
Purpose of Fund: To provide alcohol abuse treatment and rehabilitation services for DUI inmates.		
Funds Expended	311,400	555,500
Year-End Fund Balance	1,261,800	1,131,900

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Correctional Industries Revolving Fund (DCA4002/A.R.S. § 41-1624)		Non-Appropriated
Source of Revenue: Sale of Arizona Correctional Industries (ACI) goods and services and interest earnings.		
Purpose of Fund: To compensate state employees and inmates employed at ACI; purchase materials for the manufacture of goods for resale, equipment, and supplies; maintain and repair ACI's buildings and equipment; and pay other associated ACI operational costs. A.R.S. § 41-1624 authorizes an annual \$1,000,000 transfer into the Department of Corrections Building Renewal Fund; this annual transfer is shown in the expenditures. The FY 2017 General Appropriation Act transferred \$1,000,000 to the Automation Projects Fund for the replacement of the inmate management system; this transfer is reflected in the balance. The FY 2018 General Appropriation Act transfers \$1,450,000 to the ADC Building Renewal Fund for locking systems replacement; this transfer is reflected in the balance.		
Funds Expended	39,007,700	43,483,100
Year-End Fund Balance	11,681,800	9,037,800
Community Corrections Enhancement Fund (DCA2395/ARS § 31-418)		Non-Appropriated
Source of Revenue: A portion (30%) of a monthly supervision fee of at least \$65 paid by the prisoner. The departments may require payment of a lesser amount. Beginning in FY 2013, revenues also include a monthly drug testing fee pursuant to Laws 2012, Chapter 208. The department has not yet implemented the fee.		
Purpose of Fund: To pay for costs related to community corrections.		
Funds Expended	446,400	503,600
Year-End Fund Balance	369,500	256,000
Corrections Donations Fund (DCA3147/A.R.S. § 41-1605)		Non-Appropriated
Source of Revenue: Private grants and monies received from the disposal of donated properties.		
Purpose of Fund: To be used as specified by the particular donation.		
Funds Expended	15,200	2,900
Year-End Fund Balance	6,900	4,000
Corrections Fund (DCA2088/A.R.S. § 41-1641)		Appropriated
Source of Revenue: Luxury taxes on alcohol and tobacco products. The fund receives 20% of the monies collected from spirituous liquor and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund, effective through June 30, 2015 per A.R.S. § 42-3106. A.R.S. § 42-3104 designates that the fund receive 50% of all general tax rate collections from the tax on tobacco products.		
Purpose of Fund: For the construction, major maintenance, lease-purchase or lease of correctional or state-operated juvenile facilities. The Legislature may also appropriate monies in this fund for the operation of these facilities. A.R.S. § 41-1641 authorizes an annual transfer of \$2,500,000 from the Corrections Fund to the Department of Corrections Building Renewal Fund. This amount is reflected in the balance, but is not shown in expenditures to avoid double-counting. The FY 2017 General Appropriation Act transferred a total of \$2,800,000 from the following funds to the Corrections Fund for the purchase of radios: Inmate Store Proceeds Fund (\$1,000,000), State Charitable, Penal and Reformatory Institutions Fund (\$500,000), State Department of Corrections Revolving Fund (\$500,000), Special Services Fund (\$400,000), and Penitentiary Land Fund (\$400,000). The \$2,728,000 of expenditures for radios are displayed in the FY 2017 actuals for the Corrections Fund.		
Funds Expended	19,424,700	30,312,300
Year-End Fund Balance	19,035,500	7,514,200
Department of Corrections Building Renewal Fund (DCA2551/A.R.S. § 41-797)		Appropriated
Source of Revenue: Monies transferred annually from the following funds: Inmate Store Proceeds Fund (\$500,000), Special Services Fund (\$500,000), Arizona Correctional Industries Revolving Fund (\$1,000,000), and Corrections Fund (\$2,500,000). Also includes monies from a visitation background check fee and a 1% fee on inmate deposits. The FY 2018 General Appropriation Act transfers \$1,450,000 from the Arizona Correctional Industries Revolving Fund to the Building Renewal Fund for locking systems replacement.		
Purpose of Fund: For capital projects and preventive maintenance (up to 8% of the annual expenditures).		
Funds Expended	0	0
Year-End Fund Balance	5,608,600	1,291,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Funds (DCA2000/A.R.S. § 35-142 and A.R.S. § 41-1605)		Non-Appropriated
Source of Revenue: Law enforcement related federal grants.		
Purpose of Fund: For inmate education and school breakfast and lunch programs. The amounts do not include General Fund reimbursements for the incarceration of illegal aliens from the State Criminal Alien Assistance Program.		
Funds Expended	7,848,300	8,773,000
Year-End Fund Balance	557,900	543,700
Indirect Cost Recovery Fund (DCA9000/A.R.S. § 41-1604)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay department-wide administrative and overhead costs.		
Funds Expended	43,300	341,100
Year-End Fund Balance	3,529,300	3,809,700
Inmate Store Proceeds Fund (DCA2505/A.R.S. § 41-1604.02)		Partially-Appropriated
Source of Revenue: Profit resulting from the privatization of inmate stores.		
Purpose of Fund: For inmate activities, incentive pay increases for Corrections Officers, equipment to enhance safety for both department personnel and inmates or other official needs as required, at the discretion of the Director of ADC. A.R.S. § 41-1604.02 authorizes an annual \$500,000 transfer into the Department of Corrections Building Renewal Fund. The FY 2017 General Appropriation Act transferred \$1,000,000 to the Automation Projects Fund for the replacement of the inmate management system, and \$1,000,000 to the Corrections Fund for the replacement of radios. The fund balances reflect these transfers. The FY 2018 General Appropriation Act transfers \$750,000 to the Arizona Criminal Justice Commission for felony pretrial services. The FY 2018 balance reflects this transfer, but the expenditure is not reported from this fund. The FY 2018 General Appropriation Act appropriates \$386,300 from this non-appropriated fund for departmental operating costs.		
Appropriated Funds Expended	0	386,300
Non-Appropriated Funds Expended	5,633,600	5,400,000
Year-End Fund Balance	3,882,700	4,095,200
Interagency Service Agreement Fund (DCA2500/A.R.S. § 41-1604)		Non-Appropriated
Source of Revenue: Intergovernmental agreements between ADC and other state and local entities.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	61,400	54,300
Year-End Fund Balance	2,743,900	1,400
Penitentiary Land Fund (DCA3140/A.R.S. § 37-525)		Appropriated
Source of Revenue: Interest on the Penitentiary Land Fund, as established through Arizona's Enabling Act, Section 25, and monies derived from the rental of these lands and property.		
Purpose of Fund: To provide a continuous source of monies for the benefit and support of state penitentiaries. The department uses appropriations from this fund for building maintenance. The FY 2017 General Appropriation Act transferred \$1,000,000 to the Automation Projects Fund for the replacement of the inmate management system, and \$400,000 to the Corrections Fund for the replacement of radios. The fund balances reflect these transfers. The FY 2018 General Appropriation Act transfers \$1,000,000 from this fund to the Arizona Criminal Justice Commission for felony pretrial intervention services. The FY 2018 balance reflects this transfer, but the expenditure is not reported from this fund.		
Funds Expended	979,300	2,062,500
Year-End Fund Balance	3,568,100	2,860,800
Prison Construction and Operations Fund (DCA2504/A.R.S. § 41-1651)		Appropriated
Source of Revenue: Assessment (ranging from \$500 to \$1,500) paid by persons convicted of DUI offenses.		
Purpose of Fund: To pay for any costs related to prison overcrowding and department support and maintenance.		
Funds Expended	5,022,000	12,500,000
Year-End Fund Balance	7,552,800	325,200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Special Services Fund (DCA3187/A.R.S. § 41-1604.03)		Non-Appropriated
Source of Revenue: Profits from canteens, hobby shops, and commissions on telephone service.		
Purpose of Fund: For the benefit, education, and welfare of committed offenders, and operating expenses of canteens and hobby shops. A major portion of the Special Services Fund is maintained in banks outside the state treasury system, and the transactions are not processed through the Arizona Financial Information System. As a result, the information for this fund is reported on an accrual accounting basis. A.R.S. § 41-1604.03 authorizes an annual \$500,000 transfer into the Department of Corrections Building Renewal Fund; this transfer is reported as an expenditure. The FY 2017 General Appropriation Act transferred \$4,000,000 to the Automation Projects Fund for the replacement of the inmate management system, and \$400,000 to the Corrections Fund for the replacement of radios. The fund balances reflect these transfers.		
Funds Expended	4,477,600	6,660,000
Year-End Fund Balance	7,666,000	8,597,100
State Charitable, Penal and Reformatory Institutions Land Fund (DCA3141/A.R.S. § 37-525)		Appropriated
Source of Revenue: Twenty-five percent of monies received from interest on the State Charitable, Penal, and Reformatory Institutions Land Fund, as established through Arizona's Enabling Act, Section 25; and 25% of monies derived from the rental of these lands and property.		
Purpose of Fund: To provide a continuous source of monies for the benefit and support of state penal institutions. The FY 2017 General Appropriation Act transferred \$1,000,000 to the Automation Projects Fund for the replacement of the inmate management system, and \$500,000 to the Corrections Fund for the replacement of radios. The fund balances reflect these transfers. The FY 2018 General Appropriation Act transfers \$1,000,000 from this fund to the Arizona Criminal Justice Commission for felony pretrial intervention services. The FY 2018 balance reflects this transfer, but the expenditure is not reported from this fund.		
Funds Expended	1,459,400	2,661,500
Year-End Fund Balance	4,189,500	3,363,300
State DOC Revolving Fund (DCA2515/A.R.S. § 42-3106)		Non-Appropriated
Source of Revenue: The fund receives 3% of tax revenue collected on spirituous liquors and 7% of tax revenue collected on vinous and malt liquor.		
Purpose of Fund: To provide support for rehabilitation programs and counseling for inmates who have a history of substance abuse and are released on parole. Laws 2016, Chapter 153 expanded the uses of the fund to also include reentry, education and mental health programming. The balances reflect the quarterly transfers to the Transition Program Fund, but the transfers are not shown as expenditures so as to avoid double-counting. The FY 2017 General Appropriation Act transferred \$500,000 to the Corrections Fund for the replacement of radios. The fund balances reflect this transfer.		
Funds Expended	3,813,900	2,581,500
Year-End Fund Balance	1,830,200	1,234,700
State Education Fund for Correctional Education (DCA2107/A.R.S. § 15-1372)		Appropriated
Source of Revenue: "Basic State Aid" funding that ADC receives from the Arizona Department of Education based on the number of Average Daily Membership pupils attending ADC education programs pursuant to A.R.S. § 15-1372.		
Purpose of Fund: To provide education to inmates under the age of 18 years and inmates with disabilities who are age 21 or younger.		
Funds Expended	609,900	675,000
Year-End Fund Balance	994,500	977,200
State Employee Recognition Gifts/Donations Fund (DCA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity, or major life event of department employees.		
Funds Expended	0	0
Year-End Fund Balance	200	200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Transition Program Fund (DCA2379/A.R.S. § 31-284 and A.R.S. § 31-254)		Appropriated
<p>Source of Revenue: Revenue from 5% allocation of wages (if available after other obligations) from inmates not convicted of DUI earning under \$2.00 per hour and from the cost savings from the implementation of a transition program as calculated by A.R.S § 31-285. The source of revenue for the cost savings is the State DOC Revolving Fund that receives a share of tax revenue collected from liquor, and the expenditures of these monies are reported from this fund.</p> <p>Purpose of Fund: To pay for costs related to the administration of the Transition Program and for transition program services. The FY 2017 General Appropriation Act increased the appropriation by an additional \$200,000 for the costs of operating a reentry center in Maricopa County.</p>		
Funds Expended	2,221,100	2,400,100
Year-End Fund Balance	1,748,900	1,918,900

Board of Cosmetology

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	403,300
Professional and Outside Services	126,100	126,100	126,100
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	364,500
Equipment	8,100	8,100	8,100
OPERATING SUBTOTAL	1,757,400	1,830,300	1,805,200
SPECIAL LINE ITEMS			
Annual Leave Payout	0	34,200	34,200
AGENCY TOTAL	1,757,400	1,864,500	1,839,400
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Cosmetology Fund	1,757,400	1,864,500	1,839,400
SUBTOTAL - Other Appropriated Funds	1,757,400	1,864,500	1,839,400
SUBTOTAL - Appropriated Funds	1,757,400	1,864,500	1,839,400
TOTAL - ALL SOURCES	1,757,400	1,864,500	1,839,400

AGENCY DESCRIPTION — The board administers licensing examinations and licenses; inspects salons and schools; investigates violations of sanitation requirements and procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The Baseline includes \$1,805,200 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(25,100) from the Board of Cosmetology Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Annual Leave Payout

The Baseline includes \$34,200 from the Board of Cosmetology Fund in FY 2019 for an annual leave payout. This amount is unchanged from FY 2018.

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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Cosmetology Fund (CBA2017/A.R.S. § 32-505)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of cosmetologists, salons, and cosmetology schools. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate cosmetologists, salons, and cosmetology schools, and for board administration.		
Funds Expended	1,757,400	1,864,500
Year-End Fund Balance	8,435,500	8,349,800

County Funding

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
FUND SOURCES			
General Fund	14,000,500	15,650,700	6,000,500
SUBTOTAL - Appropriated Funds	14,000,500	15,650,700	6,000,500
TOTAL - ALL SOURCES	14,000,500	15,650,700	6,000,500

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services.

Assistance to Counties

The Baseline includes \$6,000,500 from the General Fund in FY 2019 for assistance to counties. FY 2019 adjustments are as follows:

Remove One-Time Offset

The Baseline includes a decrease of \$(8,000,000) from the General Fund in FY 2019 for the elimination of one-time funding distributed to counties to offset contributions for the cost of the Department of Juvenile Corrections (DJC). The FY 2018 General Appropriation Act designated this FY 2018 funding as one-time.

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2018 Criminal Justice BRB required 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.)*

Remove One-Time County Assistance

The Baseline includes a decrease of \$(1,650,150) from the General Fund in FY 2019 for the elimination of a one-time increase for assistance to Pinal, Yavapai, and Mohave Counties. The FY 2018 General Appropriation Act designated this FY 2018 funding as one-time.

The FY 2018 General Appropriation Act appropriated these monies to the Arizona Department of Administration (ADOA) to be allocated equally among counties with a population of more than 200,000 and less than 900,000 according to the 2010 Decennial Census. Each county received \$550,050.

Table 1

Distribution and County Population

<u>County</u>	<u>\$6.0 M Distribution</u>	<u>2010 Decennial Census Population</u>
Maricopa	\$ -	3,817,117
Pima	-	980,263
Pinal	-	375,770
Yavapai	-	211,033
Mohave	-	200,186
Yuma	550,050	195,751
Coconino	550,050	134,421
Cochise	550,050	131,346
Navajo	550,050	107,449
Apache	550,050	71,518
Gila	550,050	53,597
Santa Cruz	550,050	47,420
Graham	1,050,050	37,220
La Paz	550,050	20,489
Greenlee	550,050	8,437
Total	\$6,000,500	6,392,017

The Baseline includes an ongoing distribution of \$6,000,500 to ADOA and would be allocated equally among all counties with a population of less than 200,000 according to the 2010 Decennial Census (*see Table 1*). This includes all counties except Mohave, Yavapai, Pinal, Pima, and Maricopa. Each county receives \$550,050. An additional \$500,000 is allocated to Graham County on an ongoing basis.

These appropriations are in a separate section of the General Appropriation Act apart from the main ADOA appropriation.

* * *

STATUTORY CHANGES

The Baseline would, as session law, continue to allow counties with a population of less than 250,000 according to the 2010 Decennial Census to use any source of county revenue to meet a county fiscal obligation for FY 2019, up to \$1,250,000 of county revenue for each county. Require counties using this authority to report to the Director of the Joint Legislative Budget Committee (JLBC) on the intended amount and sources of funds by October 1, 2018. *(Please see Other Issues for prior use of this provision.)*

Other Issues

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: \$51,000 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 BASELINE
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	173,500
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	183,800
Equipment	50,300	47,500	47,500
OPERATING SUBTOTAL	1,098,900	1,256,300	1,251,100
SPECIAL LINE ITEMS			
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	4,220,600
AGENCY TOTAL	5,515,200	9,202,600	6,445,400

FUND SOURCES

Other Appropriated Funds

Criminal Justice Enhancement Fund	502,200	651,300	646,600
Drug and Gang Prevention Resource Center Fund	596,700	605,000	604,500
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
State Charitable, Penal and Reformatory Institutions Land Fund	0	1,000,000	0
Victim Compensation and Assistance Fund	3,484,300	4,222,600	4,220,600
SUBTOTAL - Other Appropriated Funds	5,515,200	9,202,600	6,445,400
SUBTOTAL - Appropriated Funds	5,515,200	9,202,600	6,445,400
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	18,243,000

AGENCY DESCRIPTION — The commission was created to enhance the effectiveness and coordination of the criminal justice system in Arizona. The commission may identify needed revisions in the system and make reports. It receives 1.57% of Criminal Justice Enhancement Fund (CJEF) monies.

Operating Budget

The Baseline includes \$1,251,100 and 9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
CJEF	\$646,600
Drug and Gang Prevention Resource Center Fund	604,500

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,200) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

CJEF	(4,700)
Drug and Gang Prevention Resource Center Fund	(500)

(Please see the Technical Budget Assumptions section.)

Felony Pretrial Intervention Programs

The Baseline includes no funding in FY 2019 for Felony Pretrial Intervention Programs. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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.

Assuming there is no continuation of the one-time funding, the estimated ending FY 2019 balance of these 3 funds are as follows:

Inmate Store Proceeds Fund	5,057,700
Penitentiary Land Fund	3,279,600
State Charitable, Penal and Reformatory Institutions Land Fund	3,676,200

Distributions to county attorney offices for administering felony pretrial intervention programs are shown in *Table 1*.

Table 1	
Felony Pretrial Intervention Program	
County	FY 2018 One-Time Distribution
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	209,100
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 Baseline 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. The Arizona Criminal Justice Commission (ACJC) is required to distribute the monies to each county based on a composite index formula using Superior Court felony filings and county population.

Victim Compensation and Assistance

The Baseline includes \$4,220,600 from the Victim Compensation and Assistance Fund in FY 2019 for Victim Compensation and Assistance. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,000) from the Victim Compensation and Assistance Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This line item provides funding for 2 crime victim grant programs: the Victim Compensation Program and the Victim Assistance Program. Victim compensation monies are distributed to county compensation boards that award cash compensation to crime victims for specified expenses resulting from their victimization. Revenues for victim compensation grant monies come from 3 sources: 4.6% CJEF distribution, inmate work fees, and unclaimed victim restitution. Victim assistance monies are granted

to local government and not-for-profit agencies on a competitive basis and are used for operating expenses related to their victim assistance programs. Revenues for victim assistance grants come from community supervision fees and interstate compact fees.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

All monies received by the Arizona Criminal Justice Commission in excess of \$973,700 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.

All Victim Compensation and Assistance monies received by the Arizona Criminal Justice Commission in excess of \$4,220,600 in FY 2019 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance Fund monies in excess of \$4,220,600 in FY 2019, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee.

Other Issues

Indigent Defense

The Baseline 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.

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
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Criminal Justice Enhancement Fund (JCA2134/A.R.S. § 41-2401)	Appropriated	
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Source of Revenue: A 1.57% allocation of the Criminal Justice Enhancement Fund (CJEF). (See below for additional information on statewide CJEF maintained in the Treasurer's Office but shown under ACJC as Arizona Revised Statute requires the commission to annually report on CJEF.) CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.

Purpose of Fund: To cover the operating costs of ACJC.

Funds Expended	502,200	651,300
Year-End Fund Balance	506,900	499,200

Criminal Justice Enhancement Fund (JCA2134/A.R.S. § 41-2401)	Partially-Appropriated	
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Source of Revenue: A 47% penalty on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.

Purpose of Fund: CJEF monies are distributed on a percentage basis to various state entities. (See individual agency pages for detailed information on each recipient.)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>% of CJEF</u>	<u>Approp.</u>
Funds Transferred ^{1/ 2/}				
Attorney General				
AZ Prosecuting Attorneys Advisory Council (4)	1,037,300	1,037,300	3.03	no
County Attorneys (7)	3,200,900	3,200,900	9.35	no
Victim's Rights Implementation (13)	2,629,200	2,629,200	7.68	yes ^{3/}
AZ Criminal Justice Commission				
Operation Costs (10)	537,500	537,500	1.57	yes
Victim Compensation (14)	1,574,800	1,574,800	4.60	yes ^{3/}
Department of Public Safety				
Crime Lab Assessment Fund (12)	787,400	787,400	2.30	yes ^{3/}
Crime Lab Operations Fund (11)	3,081,100	3,081,100	9.00	yes ^{3/}
DNA Identification System (6)	438,200	438,200	1.28	yes ^{3/}
Fingerprinting Identification System (1)	2,211,500	2,211,500	6.46	yes
Peace Officers' Training Fund (3)	5,696,500	5,696,500	16.64	no
State/Local Grants (6)	2,492,200	2,492,200	7.28	^{4/}
Department of Juvenile Corrections (2)	551,200	551,200	1.61	yes
State Treasurer				
County Sheriffs (9)	4,005,400	4,005,400	11.70	no
Supreme Court				
Case Processing (8)	2,060,900	2,060,900	6.02	yes
Juvenile Crime (5)	3,200,900	3,200,900	9.35	yes
Community Punishment Program (15)	<u>729,200</u>	<u>729,200</u>	2.13	yes
Total Funds Transferred ^{5/}	34,234,100	34,234,100		

^{1/} The numbers following the recipient agencies represent the paragraph numbers from A.R.S. § 41-2401D.
^{2/} The numbers displayed in the chart represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.
^{3/} These monies represent a continuing appropriation from CJEF, but are appropriated prior to expenditure by the recipient agency.
^{4/} Monies retained by the Department of Public Safety for operating expenditures are appropriated. Monies passed through to state and local agencies are non-appropriated.
^{5/} Numbers may not add due to rounding.

Drug and Gang Enforcement Fund (JCA2516/A.R.S. § 41-2402)	Non-Appropriated	
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Source of Revenue: Drug fees and fines (A.R.S. § 13-811), selected Superior Court fees (A.R.S. § 12-284), and local matching funds.

Purpose of Fund: To make grants in amounts not to exceed the percentages shown to enhance efforts to prosecute (50%), adjudicate (30%), and punish (30%) drug offenders and members of criminal street gangs, as well as to enhance investigations and education programs relating to drug and gang activities (50%), and to improve criminal justice records integration (30%). The fund may also be used to fund the Statistical Analysis Center but not the Arizona Youth Survey. The monies that were previously received and expended in the Drug and Gang Enforcement Account of the Criminal Justice Enhancement Fund are now shown in this fund, which was created by the FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119).

Funds Expended	7,167,200	4,987,300
Year-End Fund Balance	1,864,600	2,088,600

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Drug and Gang Prevention Resource Center Fund (JCA2280/A.R.S. § 41-2402)		Appropriated
Source of Revenue: 1.31% of fee collections and filings in the Superior Court, 1.31% of notary bond fees, and public and private gifts or grants, excluding federal monies.		
Purpose of Fund: To fund the Statistical Analysis Center and Arizona Youth Survey, a statutorily required survey of 8th, 10th, and 12th grade students in schools across Arizona. The survey measures alcohol and drug use, gang affiliation, and weapons within schools.		
Funds Expended	596,700	605,000
Year-End Fund Balance	1,017,400	1,037,400
Federal Grants (JCA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To improve the criminal justice records system in Arizona; to fund state and local correction and detention agencies' substance abuse programs for incarcerated offenders; and to provide support dealing with criminal justice issues.		
Funds Expended	6,708,600	6,810,300
Year-End Fund Balance	5,811,400	6,076,600
Inmate Store Proceeds Fund (JCA2505/A.R.S. § 41-1604.02)		Appropriated
Source of Revenue: Profit resulting from the privatization of inmate stores.		
Purpose of Fund: Laws 2017, Chapter 286 appropriated \$750,000 from the Inmate Store Proceeds Fund for the Felony Pretrial Intervention Program.		
Funds Expended	0	750,000
Year-End Fund Balance	0	0
Penitentiary Land Fund (JCA3140/A.R.S. § 37-525)		Appropriated
Source of Revenue: Interest on the Penitentiary Land Fund, as established through Arizona's Enabling Act, Section 25, and monies derived from the rental of these lands and property.		
Purpose of Fund: Laws 2017, Chapter 286 appropriated \$1,000,000 from the Penitentiary Land Fund for the Felony Pretrial Intervention Program.		
Funds Expended	0	1,000,000
Year-End Fund Balance	0	0
State Aid to County Attorneys Fund (JCA2443/A.R.S. § 11-539)		Appropriated
Source of Revenue: Legislative appropriations, a 15.44% allocation of a 7% penalty assessment on fines, penalties and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and a 21.61% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: To provide state aid to county attorneys to improve the processing of criminal cases in the Superior and Justice Courts. ACJC administers the fund and distributes the monies to each county based on a composite index formula using felony filings and population.		
Funds Expended	932,000	973,700
Year-End Fund Balance*	0	(220,100)
State Aid to Indigent Defense Fund (JCA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, a 14.66% allocation of a 7% penalty assessment on fines, penalties and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and a 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: To provide state aid to county public defenders and legal defenders for the processing of criminal cases. These monies are no longer used for this purpose. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) permits the Department of Public Safety to use these monies for the operational costs of the Arizona Counter Terrorism Information Center (ACTIC).		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Charitable, Penal and Reformatory Institutions Land Fund (JCA3141/A.R.S. § 37-525)		Appropriated
Source of Revenue: Twenty-five percent of monies received from interest on the State Charitable, Penal, and Reformatory Institutions Land Fund, as established through Arizona's Enabling Act, Section 25; and 25% of monies derived from the rental of these lands and property.		
Purpose of Fund: Laws 2017, Chapter 286 appropriated \$1,000,000 from the State Charitable, Penal and Reformatory Institutions Land Fund for the Felony Pretrial Intervention Program.		
Funds Expended	0	1,000,000
Year-End Fund Balance	0	0
 Victim Compensation and Assistance Fund (JCA2198/A.R.S. § 41-2407)		Appropriated
Source of Revenue: The fund consists of 2 subaccounts. The Victim Compensation subaccount receives a 4.6% distribution from CJEF, monies collected from a 10% assessment of a working prisoner's gross compensation, and unclaimed restitution. The Victim Assistance subaccount receives revenue derived from community supervision fees and interstate compact fees.		
Purpose of Fund: To establish, maintain and support programs that compensate and assist victims of crime.		
Funds Expended	3,484,300	4,222,600
Year-End Fund Balance	4,249,500	3,354,300

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

Arizona State Schools for the Deaf and the Blind

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
PROGRAM BUDGET			
Administration/Statewide	4,712,400	4,996,100	4,885,800
Phoenix Day School for the Deaf	9,968,700	9,969,400	9,502,900
Preschool/Outreach Programs	4,154,400	4,348,900	4,299,500
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	32,878,200
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	541.2
Personal Services	18,220,100	18,220,100	18,220,100
Employee Related Expenditures	7,997,700	7,997,700	7,404,000
Professional and Outside Services	1,701,000	1,813,000	1,813,000
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	797,000
OPERATING SUBTOTAL	32,764,600	33,072,700	32,479,000
SPECIAL LINE ITEMS			
School Bus Replacement	507,300	738,000	738,000
Voucher Fund Adjustment	0	0	(338,800)
AGENCY TOTAL	33,271,900	33,810,700	32,878,200
FUND SOURCES			
General Fund	21,616,900	21,932,000	21,378,100
<u>Other Appropriated Funds</u>			
Schools for the Deaf and the Blind Fund	11,655,000	11,878,700	11,500,100
SUBTOTAL - Other Appropriated Funds	11,655,000	11,878,700	11,500,100
SUBTOTAL - Appropriated Funds	33,271,900	33,810,700	32,878,200
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	52,600,300

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.

Operating Budget

The Baseline includes \$32,479,000 and 541.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$20,640,100
Schools for the Deaf and the Blind Fund	11,838,900

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(593,700) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(553,900)
Schools for the Deaf and the Blind Fund	(39,800)

(Please see the Technical Budget Assumptions section.)

Assistive Technology Devices

The Baseline includes no change in funding from the General Fund in FY 2019 for assistive technology devices. The Baseline 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 Baseline 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 Baseline 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.

Voucher Fund Adjustment

The Baseline includes \$(338,800) from the ASDB Fund in FY 2019 for enrollment changes. FY 2019 adjustments are as follows:

Enrollment Change

The Baseline includes a decrease of \$(533,900) from the ASDB Fund in FY 2019 for enrollment change. 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 Baseline assumes no further change in ASDB enrollments for the Tucson, Phoenix and preschool programs for FY 2019, so the Baseline 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 adjustment described separately below. This would require a \$(533,000) reduction from ASDB's FY 2018 budget.

These estimates are based on enrollment trends shown in Table 1. (Please see Other Issues for additional enrollment information.)

Base Level Increase

The Baseline 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 Baseline increases the BSA base level by 1.77% in FY 2019, which results in additional FY 2019 funding of \$195,100.

Background – Special education voucher monies in the ASDB Fund represent ASDB's reimbursement from the Arizona Department of Education (ADE) for educational costs based on its enrollment. As with school districts, ASDB's ADE funding is determined by statutory formula. The amounts are reflected within a separate line item to give ASDB flexibility in allocating funding changes among its 4 programs.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Program

FOOTNOTES

Standard Footnotes

Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,500,100 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.

Other Issues

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 reported enrollment through November 2017. The Baseline assumes that FY 2019 enrollment levels for ASDB will be unchanged from FY 2018.

	ASDB Average Annual Enrollment			
	FY 2015	FY 2016	FY 2017	FY 2018
Tucson	158	138	129	130
Phoenix	274	266	283	270
Preschool	<u>97</u>	<u>98</u>	<u>99</u>	<u>89</u>
Total	529	502	511	489 ^{1/}

^{1/} Enrollment as of November 2017.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
ASDB Classroom Site Fund (SDA2486/A.R.S. § 15-1305)		Non-Appropriated
Source of Revenue: Monies transferred to the fund pursuant to A.R.S. § 15-1305 from a 0.6% sales tax and growth in the Permanent State School Fund expendable earnings above the FY 2001 level. Funding level is determined by the "Group A" and "Group B" weighted student count, as specified in A.R.S. § 15-943.		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention, and teacher liability insurance premiums (40%).		
Funds Expended	2,198,600	1,822,100
Year-End Fund Balance	722,500	722,600
Enterprise Fund (SDA4222/A.R.S. § 15-1323)		Non-Appropriated
Source of Revenue: Monies received from fees, rentals, and other charges from the non-school use of facilities.		
Purpose of Fund: To defray the costs of operating those facilities (i.e. auditorium).		
Funds Expended	38,700	36,400
Year-End Fund Balance	249,300	321,800
Federal Grants (SDA2000/A.R.S. § 15-1303)		Non-Appropriated
Source of Revenue: Federal grants - Title I aid to schools; vocational rehabilitation; National School Lunch and Breakfast programs; Arizona deaf-blind project; preschool services; and Arizona Early Intervention program.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the federal grants.		
Funds Expended	2,219,800	2,213,500
Year-End Fund Balance	680,700	1,081,000
IGA and ISA Fund (SDA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
Funds Expended	0	0
Year-End Fund Balance	46,000	46,000
Instructional Improvement Fund (SDA2492/A.R.S. § 15-979)		Non-Appropriated
Source of Revenue: Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts.		
Purpose of Fund: To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
Funds Expended	0	0
Year-End Fund Balance	1,800	1,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Regional Cooperatives Fund (SDA4221/Laws 1987, Chapter 363)		Non-Appropriated
Source of Revenue: Monies in the fund come from special education voucher funds as well as tuition and fees that school districts pay to ASDB in order to reimburse it for costs of providing services to their students.		
Purpose of Fund: The Regional Cooperative Fund is used to support ASDB's Regional Cooperatives program, which provides educational services to sensory impaired pupils who attend school at their local school districts rather than at an ASDB campus.		
Funds Expended	14,892,200	14,892,200
Year-End Fund Balance	2,178,900	1,858,300
Schools for the Deaf and the Blind Fund (SDA2444/A.R.S. § 15-1304)		Appropriated
Source of Revenue: "Special Education Fund" monies that ASDB receives from the Arizona Department of Education under the formula prescribed in A.R.S. § 15-1204. This formula is based on the number of pupils attending ASDB and the various special education "Group B" funding categories that those pupils qualify for under A.R.S. § 15-943(2b). This fund also receives expendable land endowment earnings pursuant to A.R.S. § 15-1304 and over-age and non-resident tuition income pursuant to A.R.S. § 15-1345.		
Purpose of Fund: To cover the cost of educating students receiving special education services at ASDB.		
Funds Expended	11,655,000	11,878,700
Year-End Fund Balance	1,320,700	1,212,700
State Grants (SDA2011/A.R.S. § 15-1303)		Non-Appropriated
Source of Revenue: "Direct Services Claiming" (DSC) reimbursements and grants by private corporations and other state agencies.		
Purpose of Fund: To reimburse ASDB for DSC-related expenditures and to accomplish specific projects of interest to the donor and ASDB.		
Funds Expended	716,200	688,200
Year-End Fund Balance*	(52,000)	829,800
Trust Fund (SDA3148/A.R.S. § 15-1303)		Non-Appropriated
Source of Revenue: Monies received from private endowment, which are outside the control of the State Treasurer and are held by the ASDB Board.		
Purpose of Fund: Spent at the discretion of ASDB.		
Funds Expended	74,100	69,700
Year-End Fund Balance	32,400	82,700

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

Commission for the Deaf and the Hard of Hearing

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	417,500
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	1,989,300
Equipment	177,000	266,000	263,200
OPERATING SUBTOTAL	3,757,500	4,430,600	4,409,500
SPECIAL LINE ITEMS			
Support Services for the Deaf-Blind	0	192,000	192,000
AGENCY TOTAL	3,757,500	4,622,600	4,601,500
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Telecommunication Fund for the Deaf	3,757,500	4,622,600	4,601,500
SUBTOTAL - Other Appropriated Funds	3,757,500	4,622,600	4,601,500
SUBTOTAL - Appropriated Funds	3,757,500	4,622,600	4,601,500
TOTAL - ALL SOURCES	3,757,500	4,622,600	4,601,500

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 Baseline includes \$4,409,500 and 16 FTE Positions from the Telecommunication Fund for the Deaf in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(2,800) from the Telecommunication Fund for the Deaf in FY 2019 for the elimination of one-time funding for the Hearing Aid Assistance Program.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(18,300) from the Telecommunication Fund for the Deaf in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* section.)

Support Services for the Deaf-Blind

The Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Telecommunication Fund for the Deaf

The Telecommunication Fund for the Deaf is the primary funding source for the Commission for the Deaf and the Hard of Hearing. The fund derives its revenue from a 1.1% surcharge on landline telephone bills.

The fund balance has consistently increased over the past 5 years. From FY 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Private Grants (DFA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Revenue received from grants and donations from non-governmental agencies such as foundation and private donors.		
Purpose of Fund: Monies used to pay for conferences, program, or other activities that are sponsored by donor organizations.		
Funds Expended	0	0
Year-End Fund Balance	11,600	0
Telecommunication Fund for the Deaf (DFA2047/A.R.S. § 36-1947)		Appropriated
Source of Revenue: Telecommunications Services Excise Tax, which is a 1.1% surcharge on local telephone bills.		
Purpose of Fund: To operate the Arizona Relay System; support community outreach and education, purchase; repair, and distribute telecommunication devices for the deaf, hard of hearing, blind, and speech impaired; and operating costs of the commission.		
Funds Expended	3,757,500	4,622,600
Year-End Fund Balance	10,355,200	11,390,500

State Board of Dental Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	149,600
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	186,000
Equipment	31,800	23,700	23,700
AGENCY TOTAL	1,112,400	1,229,900	1,214,500

FUND SOURCES

Other Appropriated Funds

Dental Board Fund	1,112,400	1,229,900	1,214,500
SUBTOTAL - Other Appropriated Funds	1,112,400	1,229,900	1,214,500
SUBTOTAL - Appropriated Funds	1,112,400	1,229,900	1,214,500
TOTAL - ALL SOURCES	1,112,400	1,229,900	1,214,500

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of dentists, denturists, dental hygienists and dental assistants.

Operating Budget

The Baseline includes \$1,214,500 and 11 FTE Positions from the Dental Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(15,400) from the Dental Board Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

* * *

FORMAT — Lump Sum by Agency

Other Issues

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Dental Board Fund (DXA2020/A.R.S. § 32-1212)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of dentists, denturists, dental hygienists, and dental assistants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate dentists, denturists, dental hygienists, and dental assistants, and for board administration.		
Funds Expended	1,112,400	1,229,900
Year-End Fund Balance	5,598,400	5,136,900

Arizona Early Childhood Development and Health Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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.

	<u>FY 2016</u> <u>Actual</u>	<u>FY 2017</u> <u>Actual</u>	<u>FY 2018</u> <u>Estimate</u>	<u>FY 2019</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.			

STATUTORY CHANGES

The Baseline would, as session law, continue to require ECDHB to report with DCS on their collaborative efforts to address child welfare issues of common concern.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Early Childhood Development and Health Fund (CDA2542/A.R.S. § 8-1181)		Non-Appropriated
Source of Revenue: A 4¢ tax per cigarette as well as various increases on other tobacco products.		
Purpose of Fund: To fund the administrative and programmatic costs of the Arizona Early Childhood Development and Health Board. Monies from the fund may supplement, but not supplant, existing early childhood development programs. Up to 10% of the funds each year are deposited into the Administrative Costs Account and at least 90% are deposited into the Program Account for early childhood development programs and grants. The fund was created as a result of a voter initiative (Proposition 203) in the 2006 election.		
Funds Available		
Balance Forward	370,924,000	371,021,500
Revenue:		
Administrative Costs Account	13,294,200	13,000,000
Program Account	118,224,000	117,000,000
Other (Donations/Grants)	<u>474,700</u>	<u>463,600</u>
Total Funds Available	502,916,900	501,485,100
Expenditures:		
Administrative Expenditures	13,178,500	14,753,200
Programmatic Expenditures	<u>118,716,900</u>	<u>121,410,500</u>
Total Funds Expended	131,895,400	136,163,700
Year-End Fund Balance	371,021,500	365,321,400
Federal Grants (CDA2000/A.R.S. § 8-1182)		Non-Appropriated
Source of Revenue: Federal Funds.		
Purpose of Fund: To fund early comprehensive childhood systems.		
Funds Expended	5,680,600	9,158,300
Year-End Fund Balance	8,871,000	5,198,000

Office of Economic Opportunity

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	107,300
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	484,100
SPECIAL LINE ITEMS			
Small Water Systems Fund Deposit	500,000	0	0
AGENCY TOTAL	1,008,700	484,100	484,100
FUND SOURCES			
General Fund	1,008,700	484,100	484,100
SUBTOTAL - Appropriated Funds	1,008,700	484,100	484,100
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	162,024,500

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 Baseline includes \$484,100 and 5 FTE Positions from the General Fund in FY 2019 for the operating budget. These amounts are unchanged from FY 2018.

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FORMAT – Lump Sum by Agency

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.

Table 1
FY 2019 FTE Positions and Expenditures

<u>Recipient</u>	<u>FTE Positions</u>	<u>Total Funds</u>
OEO	35.6	\$ 4,153,500
AFA	20.7	157,871,000
AIDA ^{1/}	3.5	3,120,200
Total	59.8	165,144,700

^{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 \$4,153,500 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.

Fund Source	FY 2019
General Fund	\$ 484,100
IGA & ISA Fund	600,700
Corporation Commission Fees	811,500
Federal Funds	<u>2,257,200</u>
OEO TOTAL	\$4,153,500

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 \$5,085,800 in FY 2018. Since these monies represent excess balances from state Industrial Development Authorities (IDAs) that were folded into the AIDA, it is estimated that any transfers beyond FY 2018 into the Economic Development Fund will be minimal. 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.

Agency/Fund Source	FY 2019
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	<u>\$ 32,400</u>
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 \$13,549,800 which will allow for bonding of up to \$406,494,200 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.

<u>Fund Source</u>	<u>FY 2019</u>
AIDA IGA & ISA Fund	<u>\$3,120,200</u>
AIDA Total	\$3,120,200 ^{1/2/}

^{1/} AFA did not provide an estimate. This amount is an estimate based on FY 2016 expenditures from the 3 consolidated IDAs.
^{2/} This amount is not reflected in the OEO summary table as the monies are held an AIDA bank account rather than a state fund.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Clean Water Revolving Fund (FAA2254/A.R.S. § 49-1221)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal capitalization grants, loan repayments, loan servicing fees, donations, and interest.		
Purpose of Fund: To make loans for capital improvements at wastewater treatment facilities of political subdivisions and Indian tribes. The fund is also used for debt refinancing, bond insurance related to wastewater treatment plants, and for fund administration. The Water Infrastructure Finance Authority administers the fund.		
Funds Expended	63,836,200	90,338,300
Year-End Fund Balance	82,731,900	42,922,200
Drinking Water Revolving Fund (FAA2307/A.R.S. § 49-1241)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal capitalization grants, loan repayments, loan servicing fees, donations, and interest.		
Purpose of Fund: To make loans to drinking water facilities, including forgivable principal, of political subdivisions and Indian tribes. The fund is also used for debt refinancing, bond insurance related to drinking water plants, and for fund administration.		
Funds Expended	20,251,800	48,998,800
Year-End Fund Balance	45,101,100	31,747,700
Economic Development Fund (EOA3337/A.R.S. § 41-5302)		Non-Appropriated
Source of Revenue: Any unencumbered monies retained by the Arizona Finance Authority at the end of the fiscal year that are in excess of the Authority's operating expenses.		
Purpose of Fund: To fund projects as determined by the director of OEO.		
Funds Expended	0	0
Year-End Fund Balance	0	5,085,800
Office of Economic Opportunity Operations Fund (EOA9903/A.R.S. § 41-5302)		Non-Appropriated
Source of Revenue: Filing fees paid by security issuers and registration fees paid by security dealers to the Corporation Commission. Prior to the creation of this fund, these monies had been deposited into the Arizona Competes Fund.		
Purpose of Fund: To fund the operational costs of the office.		
Funds Expended	150,400	811,500
Year-End Fund Balance	1,649,600	3,038,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Grants (EOA2000/A.R.S. § 49-1203)		Non-Appropriated
Source of Revenue: Federal grants related to water supply management, employment and population statistical analysis, Workforce Innovation and Opportunity Act (WIOA) monies, and other programs.		
Purpose of Fund: To be used as specified by federal law.		
Funds Expended	18,014,200	20,745,800
Year-End Fund Balance	46,900	0
Arizona Finance Authority Operations Fund (FAA5352/A.R.S. § 41-5352)		Non-Appropriated
Source of Revenue: Legislative appropriations, unrestricted and available monies of WIFA and GADA, proceeds from the bond issuances of AIDA, donations, loans, or gifts to the Authority.		
Purpose of Fund: To fund the operations of AFA.		
Funds Expended	0	12,900
Year-End Fund Balance	79,800	146,700
Greater Arizona Development Authority Revolving Fund (FAA2311/A.R.S. § 41-2254)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal monies, gifts, grants, donations, loan repayments, administrative fees and penalties, and interest.		
Purpose of Fund: To help rural communities meet their infrastructure needs. GADA may issue bonds, guarantee debt obligations, and provide technical and financial assistance to political subdivisions, special districts, and Indian tribes. Legislative appropriations to the GADA Revolving Fund may only be used to secure bonds. The state funding only serves as collateral for the loans and is not directly loaned out. The fund was capitalized with \$20,000,000 from the General Fund between FY 1998 and FY 2000. Other revenue to the fund may be used for GADA's operating costs, as well as technical and financial assistance to communities.		
Funds Expended	33,500	32,400
Year-End Fund Balance	13,469,800	13,549,800
IGA and ISA Fund (EOA2500/A.R.S. § 41-5303)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	86,000	2,830,000
Year-End Fund Balance	0	0
Small Drinking Water Systems Fund (FAA2225/A.R.S. § 49-355)		Non-Appropriated
Source of Revenue: Legislative appropriations and interest. The FY 2017 budget included a one-time deposit of \$500,000 in General Fund monies. These expenditures are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from the fund totaled \$93,800 in FY 2017.		
Purpose of Fund: To provide information and assistance to small water systems for improving compliance with drinking water system standards, and to provide emergency grants to small water systems for infrastructure repair. Laws 2017, Chapter 213 changed the name of the fund to be the Small Drinking Water Systems Fund, expanded the eligible pool of grant recipients, and expanded the use of the funds to non-emergency grants.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Department of Economic Security

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,218.0	4,289.4	4,323.8
Personal Services	68,445,700	75,777,300	74,522,700
Employee Related Expenditures	30,557,300	33,669,600	32,154,200
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	27,907,500
Equipment	3,653,900	3,194,000	3,193,300
OPERATING SUBTOTAL	143,228,100	160,086,500	157,076,200
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	9,632,100	11,004,000	10,996,600
Aging and Adult Services			
Adult Services	8,624,100	9,431,900	8,731,900
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
Benefits and Medical Eligibility			
TANF Cash Benefits	27,736,400	27,736,400	24,763,800
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	4,177,300	8,740,200	8,740,200
Developmental Disabilities			
DDD Administration	55,933,100	79,835,500	83,262,700
DDD Premium Tax Payment	0	28,972,900	30,461,200
Case Management - Medicaid	61,205,300	67,078,100	69,767,300
Home and Community Based Services - Medicaid	855,589,000	1,100,064,500	1,127,334,800
Institutional Services - Medicaid	22,557,300	42,693,800	44,485,700
Physical and Behavioral Health Services - Medicaid	167,472,400	172,588,400	253,600,600
Arizona Training Program at Coolidge - Medicaid	15,288,600	0	0
Medicare Clawback Payments	3,370,600	4,043,000	4,185,100
Targeted Case Management	0	0	9,741,500
Case Management - State Only	3,893,700	3,913,000	3,893,700
Home and Community Based Services - State Only	17,340,400	20,028,000	13,709,000
Arizona Early Intervention Program	0	0	6,319,000
State-Funded Long Term Care Services	27,159,600	28,561,500	32,959,600
Employment and Rehabilitation Services			
JOBS	9,816,700	11,005,600	11,005,600
Child Care Subsidy	79,166,300	98,396,600	98,396,600
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
AGENCY TOTAL	1,590,268,700	1,963,058,200	2,088,309,400
FUND SOURCES			
General Fund	538,032,200	586,110,300	627,935,500
Other Appropriated Funds			
Child Support Enforcement Administration Fund	8,019,000	17,267,400	16,632,600
Domestic Violence Services Fund	4,000,000	4,000,000	4,000,000

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
Federal CCDF Block Grant	87,910,200	107,773,600	107,773,600
Federal TANF Block Grant	70,316,700	72,964,700	69,992,100
Health Services Lottery Monies Fund	700,000	2,800,000	100,000
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	421,900
Special Administration Fund	5,528,700	2,951,800	2,928,700
Spinal and Head Injuries Trust Fund	2,308,500	2,326,400	2,323,700
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	44,878,300	56,040,200	56,040,200
SUBTOTAL - Other Appropriated Funds	250,227,600	294,107,700	287,772,400
SUBTOTAL - Appropriated Funds	788,259,800	880,218,000	915,707,900
<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	1,130,302,000
SUBTOTAL - Expenditure Authority Funds	802,008,900	1,082,840,200	1,172,601,500
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,590,268,700	1,963,058,200	2,088,309,400
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	4,236,163,300

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.

Summary

The Department of Economic Security's (DES) FY 2019 General Fund spending increases by \$41,825,200, or 7.1% above the FY 2018 appropriation. This amount includes:

- \$24,066,200 for DDD formula adjustments.
- \$17,095,500 to transfer funding for DDD behavioral health services from AHCCCS to DES to reflect AHCCCS' plans to integrate physical and behavioral health services 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.
- \$6,400,000 for state-only room and board costs for ALTCS DDD clients in residential settings.
- \$2,939,000 for capitation costs associated with the Medicaid Targeted Case Management program.
- \$(12,000,000) to remove one-time funding for DDD Proposition 206 costs and room and board expenses.
- \$(558,900) to remove funding for a one-time increase in health insurance costs.

Operating Budget

The Baseline includes \$157,076,200 and 1,874.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$78,091,700
Child Support Enforcement Administration Fund	13,106,600
Child Support Enforcement Administration Fund (EA)	27,542,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,315,500
Federal Child Care and Development Fund (CCDF) Block Grant	12,077,100
Public Assistance Collections Fund	331,100
Special Administration Fund	1,692,800
Spinal and Head Injuries Trust Fund	543,600
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,375,600

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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.

In FY 2018, \$2,950,000 in one-time Health Services Lottery Fund monies were appropriated for 3 separate programs in 2 different accounts, including \$2,000,000 for Adult Protective Services caseworkers. The fund is only expected to have a one-time balance of \$1,244,200 in FY 2019, assuming there is no continuation of the one-time funding.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,010,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(349,500)
Child Support Enforcement Administration Fund	(634,800)
Public Assistance Collections Fund	(200)
Special Administration Fund	(23,100)
Spinal and Head Injuries Trust Fund	(2,700)

(Please see the Technical Budget Assumptions section.)

Administration

Attorney General Legal Services

The Baseline includes \$10,996,600 and 156.9 FTE Positions in FY 2019 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,221,900
Child Support Enforcement Administration Fund	2,446,900
Child Support Enforcement Administration Fund (EA)	7,096,200
Federal TANF Block Grant	106,100
Federal CCDF Block Grant	17,700
Public Assistance Collections Fund	90,800
Special Administration Fund	5,000
Spinal and Head Injuries Trust Fund	2,000
Workforce Investment Act Grant	10,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

Aging and Adult Services

Adult Services

The Baseline includes \$8,731,900 from the General Fund in FY 2019 for Adult Services. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(700,000) from the Health Services Lottery Monies Fund in FY 2019 to remove one-time funding for in-home services for the elderly provided by the Area Agencies on Aging (AAA). The enacted FY 2018 budget's 3-year spending plan designated this spending as one-time.

In FY 2018, \$2,950,000 in one-time Health Services Lottery Fund monies were appropriated for 3 separate programs in 2 different accounts, including \$700,000 for Adult Services. The fund is only expected to have a one-time balance of \$1,244,200 in FY 2019, assuming there is no continuation of the one-time funding.

This line item provides an array of independent living support to elderly persons, as shown in *Table 1*.

Services	FY 2019 ^{1/}
Adult Protective Contracted Services	\$ 322,700
Supplemental Payments	94,800
Home Care	4,181,500
Older Americans Act	1,905,700
Assessments and Case Management	1,721,800
Respite Care	505,300
Total	\$8,731,900

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

Community and Emergency Services

The Baseline includes \$3,724,000 from the Federal TANF Block Grant in FY 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 Baseline 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 Baseline 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
Health Services Lottery Monies Fund	100,000

These amounts are unchanged from FY 2018.

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.

Benefits and Medical Eligibility

TANF Cash Benefits

The Baseline includes \$24,763,800 from the Federal TANF Block Grant in FY 2019 for TANF Cash Benefits. FY 2019 adjustments are as follows:

TANF Transfer to DCS

The Baseline includes a decrease of \$(2,972,600) from the Federal TANF Block Grant in FY 2019 to transfer funding for TANF Cash Assistance paid by DES to unlicensed kinship families from the DES budget to the DCS budget. Transferring the money will permit a more accurate reflection of total resources available to DCS foster families. While this funding will now be reflected in the DCS budget, this money will be passed through to DES, as DES continues to administer the state’s TANF Cash Assistance program.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives.

As of October 2017, DES served a regular TANF Cash Benefits caseload of 17,242 individual recipients. The Baseline assumes a regular caseload level of 17,763 per month. The average cost per person is projected to be \$92. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial crisis. The October 2017 Diversion caseload was 726. The Baseline assumes a Diversion caseload of 740 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.

The current cumulative lifetime limit on regular TANF Cash Benefits is 24 months. In order to qualify for the second year of eligibility, a recipient must have received no penalties for violating the work and school attendance requirements. In addition, a recipient can accumulate only 2 penalties before being removed from the program.

Although changes to the lifetime limit implies larger caseloads, FY 2018 monthly caseloads reported by DES have so far shown a decline in cases as compared to FY 2017. Although it is too early to determine what, if any, impact of the transition to 24 months will have, the JLBC Staff will continue to monitor caseloads for possible modifications during the 2018 Legislative Session.

Coordinated Hunger Services

The Baseline 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.

Tribal Pass-Through Funding

The Baseline 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) Baseline 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/}	5,912,100
Administration (Non-Appropriated)	<u>2,901,800</u>
Total	\$19,534,400
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,106,600
Attorney General Legal Services	2,446,900
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,901,800</u>
Total	\$19,534,400

^{1/} This line is the difference between appropriation authority and expected revenues.

County Participation

The Baseline 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 June 2017, the Division of Developmental Disabilities served 39,160 clients, which includes 30,803 clients in the LTC program and 8,357 clients in the state-only program. The primary disabilities are shown in *Table 3*.

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	15,782	40.3%
Autism	9,524	24.3%
At Risk	8,819	22.5%
Cerebral Palsy	3,392	8.7%
Epilepsy	<u>1,643</u>	4.2%
Total	39,160	

Overall DDD Formula Adjustments

The Baseline includes an increase of \$24,066,200 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 Baseline 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 Baseline includes an increase of \$3,958,200 from the General Fund in FY 2019 for a 3.5% net capitation rate increase beginning July 1, 2018. This amount consists of an increase of \$15,396,000 for the 3.5% adjustment, offset by a reduction of \$(11,437,800) for a lower-than-expected FY 2018 capitation rate. 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 Baseline 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. 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 Baseline spending by 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/}	2,716.01	3.5%	2,811.07
Institutional Care ^{3/}	108.67	3.5%	112.48
Acute Care ^{4/}	414.90	3.5%	429.42
	3,687.28	3.5%	3,816.33

^{1/} Represents blend of rates effective July 1, 2017 and October 1, 2017.
^{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. It also excludes behavioral health capitation payments for DD members.

Table 4

DDD FY 2018 Capitation Rebase

	FY 2018 <u>Appropriation</u>	Capitation <u>Rebase</u>	Revised <u>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/}	<u>15,821,400</u>	<u>(15,821,400)</u>	<u>0</u>
	\$1,458,197,200	\$ 0	\$1,458,197,200

^{1/} Excludes 1-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.

FY 2019 Caseload Growth

The Baseline includes a net increase of \$20,487,700 from the General Fund in FY 2019 for DD caseload changes. Compared to June 2017, 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.

FY 2018 Ex-Appropriation

The Baseline includes a decrease of \$(10,000,000) from the General Fund in FY 2018 to ex-appropriate General Fund monies from DES due to lower-than-anticipated

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 ^{1/}	2,906	3,044	3,182
Developmental Home	1,531	1,603	1,675
Institution ^{2/}	128	137	146
ATPC	83	83	83
Other ^{3/}	12	13	13
Total	30,803	32,253	33,705

- ^{1/} Excludes 20 clients residing in group homes at ATPC.
- ^{2/} Excludes 63 clients residing in intermediate care facilities at ATPC.
- ^{3/} Includes behavioral health residential facilities and assisted living facilities.

capitation growth in FY 2018. Relative to the original FY 2018 overall statewide budget, however, this reduction represents no net change in available resources because the ex-appropriation implements \$(10,000,000) in unspecified "efficiency savings" assumed in the enacted budget. *(Please see Other Issues for additional information.)*

Health Insurer Fee Restoration

The Baseline includes a General Fund increase of \$952,600 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 Baseline 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 Baseline includes the following other General Fund adjustments for DDD:

- \$17,095,500 to transfer DDD behavioral health services from AHCCCS to DES. Beginning in FY 2020, DES will subcontract with a single AHCCCS health plan to deliver physical and behavioral health services to DD members.
- \$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.
- \$2,939,000 for capitation payments associated with the Medicaid Targeted Case Management program for clients in the state-only program.
- \$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.

- \$(12,000,000) to eliminate one-time increases for Proposition 206 rate adjustments and DDD Room and Board
- \$(202,000) to remove a one-time health insurance adjustment from FY 2018.

DDD Administration

The Baseline includes \$83,262,700 and 294.3 FTE Positions in FY 2019 for DDD Administration. These amounts consist of:

General Fund	25,121,600
Long Term Care System Fund	58,141,100

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline 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

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(126,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(37,000)
Long Term Care System Fund	(89,600)

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 Physical and Behavioral Health Services - Medicaid.

DDD Premium Tax Payment

The Baseline 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 Baseline 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 Baseline includes \$69,767,300 and 1,183 FTE Positions in FY 2019 for Medicaid Case Management. These amounts consist of:

General Fund	21,051,600
Long Term Care System Fund	48,715,700

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline 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

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(296,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(86,700)
Long Term Care System Fund	(209,900)

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 client added since 2006.

Home and Community Based Services - Medicaid

The Baseline includes \$1,127,334,800 and 94.5 FTE Positions in FY 2019 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	340,117,400
Long Term Care System Fund	787,217,400

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$47,496,600 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	13,777,700
Long Term Care System Fund	33,718,900

Proposition 206 Provider Rate Adjustments

The Baseline 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.)

Remove One-Time Proposition 206 Assistance

The Baseline includes a decrease of \$(33,036,000) in FY 2019 to remove one-time assistance to address developmental disability provider costs associated with Proposition 206. This amount consists of:

General Fund	(10,000,000)
Long Term Care System Fund	(23,036,000)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(62,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(18,200)
Long Term Care System Fund	(43,900)

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	
<u>Service</u>	<u>Expenditures (\$ in M)</u>
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	<u>22.8</u>
Total	\$754.9

Institutional Services - Medicaid

The Baseline includes \$44,485,700 and 457.7 FTE Positions in FY 2019 for Medicaid Institutional Services. These amounts consist of:

General Fund	13,422,400
Long Term Care System Fund	31,063,300

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline 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

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(108,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(31,700)
Long Term Care System Fund	(76,900)

Background – Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-IDs) 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 September 2017, the caseload at ATP-C was 83. 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 rules 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 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.

Physical and Behavioral Health Services - Medicaid

The Baseline includes \$253,600,600 and 35.4 FTE Positions in FY 2019 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	76,509,700
Long Term Care System Fund	177,090,900

FY 2019 adjustments are as follows:

Transfer Behavioral Health Services

The Baseline includes an increase of \$56,472,000 in FY 2019 to transfer funding for DD behavioral health services from AHCCCS to DES. Beginning in FY 2020, physical and behavioral health services will be provided under a single subcontract between DES and an integrated health plan. This amount consists of:

General Fund	17,095,500
Long Term Care System Fund	39,376,500

Formula Adjustments

The Baseline 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 Baseline 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

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(31,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(9,100)
Long Term Care System Fund	(22,000)

Background – DES subcontracts with AHCCCS health plans to obtain physical health services for DD clients in the ALTCS program, while behavioral health services for such clients are covered by the RBHAs through FY 2019 and financed by AHCCCS directly. Beginning in FY 2020, DES will subcontract with a health plan that will cover physical and behavioral health services to ALTCS clients.

Medicare Clawback Payments

The Baseline includes \$4,185,100 from the General Fund in FY 2019 for Medicare Clawback Payments. FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline 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 Baseline includes \$9,741,500 and 76.8 FTE Positions in FY 2019 for Targeted Case Management (TCM) - Medicaid. These amounts consists of:

General Fund	2,939,000
Long Term Care System Fund	6,802,500

FY 2019 adjustments are as follows:

New Line Item

The Baseline 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

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. A monthly average of 4,577 clients received TCM services in FY 2017.

TCM has historically been classified as a state-only program since its enrollees are not eligible for ALTCS. The program is still funded with Medicaid dollars, however, because TCM clients are financially eligible for AHCCCS acute care services. As a result, the Baseline includes the costs of the TCM program as federally-required Medicaid formula adjustments.

Case Management - State-Only

The Baseline includes \$3,893,700 and 55.8 FTE Positions from the General Fund in FY 2019 for state-only case management. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(19,300) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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 to New Line Item

The Baseline 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 Baseline 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 as a result of provider rate increases.

Arizona Early Intervention Program

The Baseline includes \$6,319,000 from the General Fund in FY 2019 for the Arizona Early Intervention Program (AzEIP). FY 2019 adjustments are as follows:

New Line Item

The Baseline 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.

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 \$9.3 million for AzEIP in FY 2017. As a result, the total AzEIP funding available in this line is \$15.6 million 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 \$6.6 million 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 Baseline includes \$32,959,600 and 2 FTE Positions in FY 2019 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	6,400,000
Long Term Care System Fund	26,559,600

FY 2019 adjustments are as follows:

Medicaid Room and Board

The Baseline 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.)*

Remove One-Time Room and Board Funding

The Baseline includes a decrease of \$(2,000,000) from the General Fund in FY 2019 for a one-time provider rate increase for residential providers with room and board expenses. DES used these monies to provide a room and board provider rate increase of 6.5% in FY 2018. The 3-year spending plan associated with the enacted FY 2018 budget designated this funding as one-time. *(Please see Proposition 206 Section of Other Issues for additional information.)*

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,900) from the Long Term Care System Fund (Non-Federal Matched) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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.

Table 8
Estimated JOBS Expenditures

<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 Baseline includes \$98,396,600 in FY 2019 for child care subsidies. This amount consists of:

Federal CCDF Block Grant	95,678,800
Federal TANF Block Grant	2,717,800

These amounts are unchanged from FY 2018.

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 \$356 per month in FY 2018 and the average subsidy for the DCS population is projected to be \$415 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 19,067 (see *Table 9*) excluding DCS-related child care. As of October 2017, approximately 5,767 children are on the waiting list. It is unknown how many of those children remain eligible.

Table 9
June Child Care Caseloads

<u>Category</u>	<u>FY 17</u>	<u>FY 18 est</u>	<u>FY 19 est ^{1/}</u>
TANF	1,973	1,700	2,275
Low-Income Working	12,374	10,550	11,791
Transitional Child Care	4,990	4,600	5,001
Total Served	19,337	16,850	19,067

^{1/} FY 2019 numbers are DES estimates.

Rehabilitation Services

The Baseline 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 Baseline 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.

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.

The line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

Workforce Investment Act Services

The Baseline includes \$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, 95% is allocated to local governments and 5% is retained at the state level. There is no income eligibility for the program. For eligible adults, priority is given to veterans and their spouses, individuals who are below the poverty line, individuals receiving public assistance, and those who were recently laid off.

Eligible youths must be between the ages of 14 and 24 and have at least one barrier to employment such as homelessness, pregnancy, incarceration, or a disability. The allocation of the WIA Grant for workforce related programs in FY 2019 is shown in *Table 10*.

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$53,654,600
Administration	2,375,600 ^{1/}
AG Legal Services	<u>10,000</u>
Total	\$56,040,200

^{1/} This funding is included in the operating budget.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Aging and Adult Services

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.

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.

Benefits and Medical Eligibility

The operating lump sum appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey.

Child Support Enforcement

All state shares of retained earnings, fees and federal incentives in excess of \$16,632,600 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New FTE Positions may be authorized with the increased funding. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of the monies to the Joint Legislative Budget Committee.

Developmental Disabilities

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 why this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. The department shall make this report available on or before SEPTEMBER 1, 2019. THE DEPARTMENT

SHALL ALSO REPORT TO THE DIRECTOR OF THE JOINT LEGISLATIVE BUDGET COMMITTEE ON OR BEFORE SEPTEMBER 1, 2019 ON THE TOTAL COSTS ASSOCIATED WITH THE ARIZONA TRAINING PROGRAM AT COOLIDGE IN FY 2019. *(ATP-C will no longer have its own line item under the new budget structure. This footnote will ensure that the costs of the facility remain transparent.)*

Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments that are not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable.

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. *(The Baseline revises this footnote to reflect line item name changes.)*

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.

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.

The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care System, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any change in policy affecting the amount, sufficiency,

duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the Joint Legislative Budget Committee.

Employment and Rehabilitation Services

It is the intent of the Legislature that the combined number of children in child care assistance authorized pursuant to A.R.S. § 46-803D and F be maintained throughout the year at a minimum of 8,500 children. The department shall prioritize child care assistance for families that qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I.

All Workforce Investment Act Grant monies that are received by this state in excess of \$56,040,200 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$56,040,200 to the Joint Legislative Budget Committee.

Budget Stabilization Fund

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 2019. The appropriation may not be used for additional programmatic expenditures.

The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security pursuant to A.R.S. § 42-5029.

The department 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.

Deletion of Prior Year Footnotes

The Baseline deletes a footnote that specified the amount of DDD equity monies to be transferred to the General Fund at the end of FY 2017. The FY 2018 Health BRB allowed DES to expend equity monies on a one-time basis in FY 2018 for Developmental Disabilities state-only programs, so the amount of equity available for the General Fund in FY 2018 cannot be specified in advance. As a result, this footnote does not apply in FY 2019.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to require recipients of TANF Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.
- As session law, continue to permit DES to reduce income eligibility levels for all child care programs if the program has insufficient resources. DES would be required to report to JLBC within 15 days of any such change in levels.

Other Issues

This section includes information on the following topics:

- FY 2018 Ex-Appropriation
- Long-Term Budget Impacts
- Proposition 206
- State-Funded Long Term Care Services
- HCBS Provider Rates
- DDD Appropriation Transfers
- Federal TANF Block Grant

FY 2018 Ex-Appropriation

The Baseline includes an ex-appropriation of \$(10,000,000) from the General Fund in FY 2018 for lower-than-anticipated capitation growth in the DD program. Including Proposition 206 rate adjustments, the enacted FY 2018 budget presumed capitation adjustment of 7.8% compared to the original FY 2017 capitation rates. By comparison, the actual capitation adjustment is 3.9%, primarily due to lower-than-anticipated utilization growth. The ex-appropriation will implement \$(10,000,000) in efficiency savings that were included in the enacted FY 2018 budget.

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 \$46.2 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.

Proposition 206

In November 2016, Arizona voters approved Proposition 206, or the Fair Wages and Healthy Families Act. The initiative raised Arizona's minimum wage from \$8.05 to \$10.00 on January 1, 2017, and will provide increases of between \$0.50-\$1.00 each year until the minimum wage reaches \$12.00 on January 1, 2020. Further annual increases will be tied to inflation. The initiative also requires most employers to provide paid sick leave to their employees beginning July 1, 2017. Although state employees are exempt, Proposition 206 still applies to state contractors. As a result, costs for contracted DD providers could increase from the initiative due to required wage increases for direct care workers.

To address these concerns, in January 2017, DES implemented provider rate increases of up to 8.2% for certain home and community-based services providers. Among the most used services, group homes, respite care, attendant care and habilitation received the full 8.2% increase. Services received less than an 8.2% increase if the rates were already near 100% of the benchmark rates prior to Proposition 206 or if the services were provided by individuals (such as nurses or therapists) with wages significantly above the minimum wage. AHCCCS implemented similar adjustments of up to 7% in the fee-for-service rates for home and community based services for the ALTCS Elderly and Physically Disabled (EPD) population.

The FY 2018 General Appropriation Act includes \$35.3 million from the General Fund and \$107.6 million in Total Funds in FY 2018 for the DES budget to assist providers affected by Proposition 206 (*see Table 11*). To date, DES has used this funding for the following adjustments:

- Annualize the HCBS rate increases of up to 8.2% from January 2017.
- A 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.
- A 6.5% increase of room and board rates for group homes and adult developmental homes.

The department plans to implement further provider rate adjustments in January 2018 when the statewide minimum wage increases to \$10.50.

DES also plans to use \$10.0 million from the General Fund for additional Proposition 206 assistance. Subject to federal approval, DES will make quarterly distributions to DD providers in proportion to their reported compliance costs with Proposition 206 through the end of FY 2018. If approved, the \$10.0 million General Fund appropriation would generate an additional \$23.0 million in federal matching funds, for a Total Funds allotment of \$33.0 million in FY 2018.

The 3-year spending plan associated with the enacted FY 2018 budget designated appropriations for DD room and board and Proposition 206 assistance as one-time. As a result, the Baseline includes a reduction of \$(12.0) million from the General Fund and \$(35.0) million in Total Funds to remove these appropriations in FY 2019. In accordance with the 3-year spending plan, the Baseline partly offsets these reductions with an increase of \$3.9 million from the General Fund and \$12.9 million Total Funds in FY 2019 for further Proposition 206 rate adjustments in FY 2019. This funding will annualize the cost of rate increases from January 2018, and funds additional rate adjustments when the minimum wage increases to \$11.00 in January 2019.

Table 11
FY 2018 Proposition 206 Funding for DES

	General Fund	Long Term Care System Fund	Total Funds
Ongoing			
HCBS - Medicaid	\$ 21,384,700	\$ 49,261,800	\$ 70,646,500
HCBS - State-Only	1,114,600		1,114,600
Adult Services	807,800		807,800
Subtotal Ongoing	\$ 23,307,100	\$ 49,261,800	\$ 72,568,900
One-Time			
HCBS - Medicaid	\$ 10,000,000	\$ 23,036,000	\$ 33,036,000
Room and Board	2,000,000		2,000,000
Subtotal One-Time	\$ 12,000,000	\$ 23,036,000	\$ 35,036,000
GRAND TOTAL	\$ 35,307,100	\$ 72,297,800	\$ 107,604,900

A footnote in the FY 2018 General Appropriation Act requires AHCCCS to complete a study on or before February 1, 2018 to determine what effect Proposition 206 has had on the adequacy of the provider network for the DD program as well as the EPD program, and make any recommendations as appropriate for further action by the Legislature.

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 (Laws 2017, Chapter 309) includes, as permanent law, a provision that prohibits DES from adjusting the equity transfer to pay for any state-only program claims beginning in FY 2019. The bill permits DES to continue to use equity monies for DDD state-only programs through June 30, 2018, but before making such expenditures, DES must submit a plan of any proposed use of equity monies to JLBC for review. At its June 2017 meeting, the JLBC favorably reviewed DES' proposal to spend \$14.5 million of DDD equity monies for FY 2017 shortfalls in DDD state-only programs.

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. Because DES has the authority to expend that balance to address state-only shortfalls in FY 2018, the actual amount available for

transfer to the General Fund will likely be lower than \$17.6 million

The Baseline assumes that, beginning in FY 2019, the General Fund will replace equity expenditures for state-only costs associated with Medicaid-eligible DD clients. This includes \$6.4 million for room and board costs of ALTCs clients in residential placements and \$2.9 million for Targeted Case Management expenses of state-only clients.

number of DDD providers has decreased from 1,081 to 624, or (42.3)%, but the consultant believes that the change is partly explained by provider contract changes rather than a net decrease in service providers. For example, DDD now contracts with agencies that recruit, train, and oversee adult developmental homes instead of contracting directly with such homes, which has decreased the number of providers by 95 without materially changing the number of individual homes.

The analysis also found that all rates for the top 10 most used services are at least 80% of the benchmark rates. The benchmark rates were established in the division's rate rebase study from 2014. The consultant considers rates that exceed 80% of the benchmark rates to be adequate, but acknowledges that the benchmark rates may be less relevant in evaluating the provider rates given that the rate rebase was conducted prior to implementation of Proposition 206 minimum wage and paid sick leave requirements. The report also notes that most DDD provider rates are still below the rates that were in place in FY 2009.

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	0
Other	69,600	0	0
Equity Transfer ^{3/}	4,263,400	0	0
Baseline Adjustment ^{4/}	0	0	6,400,000
Total	\$29,025,100	\$27,300,800	\$31,928,000
Uses			
SFLTC Services ^{1/}	<u>29,918,500</u>	<u>32,834,400</u>	<u>31,942,600</u>
Total	\$29,918,500	\$32,834,400	\$31,942,600
Structural Balance ^{1/}	\$ (893,400)	\$(5,533,600)	\$ (14,600)

- ^{1/} Estimates produced by DES and 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 increase is assumed to be removed 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.
- ^{4/} The Baseline includes an increase of \$6,400,000 from the General Fund in FY 2019 to eliminate the structural shortfall in SFLTC in FY 2019. This amount is equivalent to what the department requested in its FY 2019 budget submittal.

HCBS Provider Rates

Statute requires DES to conduct an annual analysis of the adequacy and appropriateness of its provider rates for contracted services rendered to DDD clients. In an October 2017 report, DES' provider rate consultant concluded that DDD provider rates are adequate based on measures of access to care. From FY 2009 to FY 2017, the number of units of service per user has increased by 8.6%, despite enrollment growth of 32.9%, indicating that the "provider network continues to respond positively to the demands placed upon it." Over the same time period, the

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 2018 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 Baseline includes a rebase of DDD's line items in FY 2018 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 Baseline appropriates \$222.4 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	\$ 17,477,700
Line Items			
Caseworkers	30,000,000	30,000,000	33,859,500
Attorney General Legal Services	99,400	99,400	99,400
Inspections Bureau	549,700	549,700	0
Overtime	3,859,500	3,859,500	0
Adoption Services	20,445,700	20,445,700	20,445,700
Allowances	0	0	4,919,400
Congregate Group Care	16,423,000	16,423,000	16,423,000
Foster Home Placement	6,973,100	6,973,100	6,973,100
Kinship Care <u>1/</u>	0	0	2,972,600
Permanent Guardianship Subsidy	1,943,000	1,943,000	1,943,000
In-Home Mitigation	5,911,200	5,911,200	0
Parent Aide	0	0	13,009,600
Substance Abuse and Mental Health Services	0	0	24,869,200
Supervised Visitation	0	0	6,804,100
Other Support Services	0	0	2,649,000
Out-of-Home Support Services	46,340,100	46,340,100	0
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 149,472,700	\$ 149,472,700	\$ 152,445,300
Department of Economic Security			
DES Operating	\$ 18,856,400	\$ 20,315,500	\$ 20,315,500
Line Items			
Attorney General Legal Services	106,100	106,100	106,100
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
TANF Cash Benefits <u>1/</u>	27,736,400	27,736,400	24,763,800
Coordinated Hunger Program	500,000	500,000	500,000
JOBS	8,405,800	9,594,700	9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
TOTAL - DEPARTMENT OF ECONOMIC SECURITY <u>2/</u>	\$ 70,316,700	\$ 72,964,700	\$ 69,992,100
FY 2017 Administrative Adjustments <u>3/</u>	\$ 2,648,000		
TOTAL - STATEWIDE	\$ 222,437,400	\$ 222,437,400	\$ 222,437,400
Ending Balance <u>4/</u>	\$ (742,200)	\$ (2,589,100)	\$ (1,846,900)

1/ The Kinship Care line item includes an increase of \$2,972,600 in FY 2019 (and a corresponding decrease from the TANF Cash Benefits line item in DES) to reflect TANF Cash Benefits paid on behalf of foster children in unlicensed kinship placements.

2/ Totals do not reflect legislative changes unless enacted in the FY 2018 General Appropriation Act.

3/ As estimated by the agency.

4/ Actual Ending Balance will not be negative.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Partially-Appropriated
<i>Source of Revenue:</i> State Share of Retained Earnings from child support collections, federal incentives, and fees.		
<i>Purpose of Fund:</i> To fund the statewide Child Support Enforcement program.		
Funds Expended	8,019,000	17,267,400
Expenditure Authority Expended	32,837,000	42,299,500
Year-End Fund Balance	3,056,600	2,652,800
Client Trust Fund (DEA3152/A.R.S. § 41-1954)		Non-Appropriated
<i>Source of Revenue:</i> Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
<i>Purpose of Fund:</i> To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	367,900	721,600
Year-End Fund Balance	1,140,900	985,600
Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)		Non-Appropriated
<i>Source of Revenue:</i> Consists of client monies, such as Social Security, earnings, etc.		
<i>Purpose of Fund:</i> If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.		
Funds Expended	15,600	15,600
Year-End Fund Balance	1,532,000	1,533,300
Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)		Non-Appropriated
<i>Source of Revenue:</i> Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.		
<i>Purpose of Fund:</i> To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
Funds Expended	35,700	35,500
Year-End Fund Balance	104,900	70,200
Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002)		Appropriated
<i>Source of Revenue:</i> A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a \$50 fee for aggravated harassment, stalking, and other violent family offenses. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions.		
<i>Purpose of Fund:</i> To fund grants to qualified shelters for victims of domestic violence.		
Funds Expended	4,000,000	4,000,000
Year-End Fund Balance	2,226,800	971,900
Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
<i>Source of Revenue:</i> Grants, gifts, or bequests.		
<i>Purpose of Fund:</i> To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.		
Funds Expended	2,800	21,400
Year-End Fund Balance	112,400	136,600
Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)		Non-Appropriated
<i>Source of Revenue:</i> Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
<i>Purpose of Fund:</i> To be used by the department for buildings, equipment, and other capital investments.		
Funds Expended	32,300	242,700
Year-End Fund Balance	393,400	405,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Employee Recognition Fund (DEA2449/A.R.S. §38-613)		Non-Appropriated
<i>Source of Revenue:</i> Gifts and donations from public and private entities.		
<i>Purpose of Fund:</i> Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	8,500	8,500
Year-End Fund Balance	0	0
Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)		Appropriated
<i>Source of Revenue:</i> Federal formula grant.		
<i>Purpose of Fund:</i> To be used for developing child care programs, providing child care to welfare recipient parents, and implementing licensing standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. The Department of Child Safety has a separate allocation of CCDF funding.		
Funds Expended	87,910,200	107,773,600
Year-End Fund Balance	9,580,600	7,310,800
Federal Grants (DEA2000/A.R.S. § 41-101.01)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
<i>Purpose of Fund:</i> To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Food Stamp administration and the Social Services Block Grant, and Medicaid.		
Funds Expended	1,862,208,000	1,849,986,700
Year-End Fund Balance	26,365,000	14,048,300
Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)		Appropriated
<i>Source of Revenue:</i> Federal formula grant.		
<i>Purpose of Fund:</i> To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families. The Department of Child Safety has a separate allocation of TANF funding.		
Funds Expended	70,316,700	72,964,700
Year-End Fund Balance*	1,104,700	(742,200)
Health Services Lottery Monies Fund (DEA4250/A.R.S. § 36-108.01)		Appropriated
<i>Source of Revenue:</i> State Lottery monies.		
<i>Purpose of Fund:</i> To fund teenage pregnancy prevention programs, the Health Start program, and the federal Women, Infants and Children (WIC) food program. In FY 2018, \$2,800,000 was appropriated to DES for Aging Services and Domestic Violence Prevention.		
Funds Expended	700,000	2,800,000
Year-End Fund Balance	0	0
Arizona Industries for the Blind Fund (DEA4003/A.R.S. § 41-1975)		Non-Appropriated
<i>Source of Revenue:</i> Proceeds from sales of products of Arizona Industries for the Blind, as well as interest earned on the fund balance. Laws 2016, Chapter 341 privatized the Arizona Industries for the Blind and the fund will be operated by a private, non-profit entity, effectively phasing out the state fund.		
<i>Purpose of Fund:</i> To provide funds for the wages and salaries of production workers, inspectors, and other employees necessary for the operation of the training centers, workshops, or home industries; supplies, equipment or other incidental costs.		
Funds Expended	16,937,800	250,000
Year-End Fund Balance	1,879,300	250,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA and ISA Fund (DEA2500/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	80,400	2,099,600
Year-End Fund Balance	2,180,000	2,099,600
Arizona Job Training Fund (DEA1237/A.R.S. § 41-1544)		Non-Appropriated
Source of Revenue: Through December 31, 2015, DES collected one-tenth of 1% of taxable wages for job training grants administered by the Arizona Commerce Authority. DES received a portion of the revenue for the purpose of collecting the job training tax.		
Purpose of Fund: To collect the job training tax.		
Funds Expended	0	0
Year-End Fund Balance*	(43,700)	120,400
Long Term Care System Fund (Federal Match) (DEA2225/A.R.S. § 36-2953)		Expenditure Authority
Source of Revenue: Federal Medicaid Authority monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system.		
Funds Expended	769,171,900	1,040,540,700
Year-End Fund Balance	87,701,600	111,717,800
Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953)		Appropriated
Source of Revenue: Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system. These monies are used to offset costs of services provided to Long Term Care clients which are not reimbursed by the federal government, such as room and board.		
Funds Expended	26,559,600	26,561,500
Year-End Fund Balance	0	0
Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To provide assistance in paying utility bills, conserving energy and weatherization to eligible individuals. Fund monies are available to designated community action or other agencies currently providing energy assistance services to eligible individuals. An amount of not more than 2% of the fund monies may be used by DES, and an amount of not more than 8% of the fund monies may be used by the designated agencies for administrative costs.		
Funds Expended	35,300	35,000
Year-End Fund Balance	19,800	36,800
Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295)		Appropriated
Source of Revenue: A portion of monies collected in recovery payments from ineligible or overpaid public assistance recipients and reimbursements received from persons legally responsible for support of public assistance recipients. The fund receives 25% of the monies collected. The remaining 75% of revenues are credited to the General Fund.		
Purpose of Fund: To improve public assistance collection activities.		
Funds Expended	6,600	422,100
Year-End Fund Balance	259,700	315,900
Special Administration Fund (DEA2066/A.R.S. § 23-705)		Appropriated
Source of Revenue: Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
Purpose of Fund: To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
Funds Expended	5,528,700	2,951,800
Year-End Fund Balance	3,774,100	893,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To contract with a nonprofit entity for delivery of those services essential to the Arizona Special Olympics' programs and to cover the Department of Revenue's costs for administering the refund checkoff.		
Funds Expended	86,900	86,900
Year-End Fund Balance	68,100	68,100
Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203)		Appropriated
Source of Revenue: The fund receives 22% of monies deposited in the Medical Services Enhancement Fund (MSEF). MSEF revenues consist of a 13% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses, civil motor statute violations, and game and fish violations.		
Purpose of Fund: For 1) prevention and education of spinal and head injuries; 2) rehabilitation, transitional living and equipment necessary for daily living activities; 3) a portion of the cost of the disease surveillance system and statewide referral services for those with head injuries and spinal cord injuries; 4) costs incurred by the Advisory Council on Spinal and Head Injuries; and 5) DES' costs for administering the provisions.		
Funds Expended	2,308,500	2,326,400
Year-End Fund Balance	3,012,100	2,734,700
Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)		Appropriated
Source of Revenue: Federal reimbursement.		
Purpose of Fund: General operations.		
Funds Expended	0	1,000,000
Year-End Fund Balance	0	0
Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701)		Non-Appropriated
Source of Revenue: Employer contributions and interest earnings. The monies are maintained and tracked in 2 separate accounts: one by the U.S. Treasury and one by the state, which is used for clearing and paying benefits. The majority of the funds available are in the U.S. Treasury account. DES, as federally required, deposits all employer contributions, other than those retained for immediate benefit payments, in the U.S. Treasury, which tracks each state's account separately.		
Purpose of Fund: To retain and invest formula-determined employer unemployment contributions to be used for payment of future unemployment benefits and refunds pursuant to § 903 of the federal Social Security Act. This fund provides regular unemployment benefits up to 26 weeks. Benefits extended beyond that time are federally funded and included in the Federal Grants fund.		
Funds Expended	264,909,100	277,400,000
Year-End Fund Balance	319,282,800	569,078,400
Unemployment Special Assessment Fund (DEA2558/A.R.S. § 23-730.01)		Non-Appropriated
Source of Revenue: A Special Assessment (SA) on taxable wages paid in calendar years 2011 and 2012 only. In 2011 and 2012, the assessment was 0.4% and 0.5% respectively.		
Purpose of Fund: The Director of DES had the discretion to set a SA in order to pay interest owed to the U.S. Department of the Treasury due to borrowing to continue to pay Unemployment Insurance (UI) benefits as well as to return the UI Trust Fund to solvency and avoid the loss of employer federal UI tax credits. Revenue in this fund was transferred to the UI Special Assessment Proceeds Fund.		
Funds Expended	867,600	0
Year-End Fund Balance	2,402,700	1,802,200
Workforce Investment Act Grant (DEA2001/U.S. P.L. 105-220)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.		
Funds Expended	44,878,300	56,040,200
Year-End Fund Balance	32,193,800	25,564,600

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

State Board of Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	139,200
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	1,142,800
FUND SOURCES			
General Fund	921,700	1,153,600	1,142,800
<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	1,142,800
TOTAL - ALL SOURCES	1,085,200	1,153,600	1,142,800

AGENCY DESCRIPTION - The State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The Board is composed of 11 members: the Superintendent of Public Instruction, the president of a state university or college, 4 lay members, a president or chancellor of a community college district, a charter school administrator, a high school district superintendent, a teacher, and a county school superintendent. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Operating Budget

* * *

The Baseline includes \$1,142,800 and 6 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(10,800) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Teacher Certification Fund (BOE2399/A.R.S. § 15-248.02)		Appropriated
Source of Revenue: Fees collected by the Department of Education from teachers and other school personnel who apply for professional certification, pursuant to A.R.S. § 15-531.		
Purpose of Fund: To fund investigations of alleged immoral or unprofessional conduct from persons applying for professional certification pursuant to A.R.S. § 15-534C. Laws 2016, Chapter 138 transferred responsibility for the investigations to the Department of Education beginning in FY 2017.		
Funds Expended	163,500	0
Year-End Fund Balance	0	0

Department of Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	171.9	171.9	171.9
Personal Services	4,390,600	4,545,300	4,545,300
Employee Related Expenditures	1,491,100	1,608,100	1,482,700
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	4,396,300
Equipment	122,500	55,400	55,400
OPERATING SUBTOTAL	11,518,000	14,385,400	14,260,000
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,822,372,500	3,917,122,400	4,057,093,100
State Aid Supplement	50,000,000	50,000,000	50,000,000
Additional Teacher Salary Increase	0	34,000,000	65,419,100
Results-Based Funding	0	37,600,000	49,600,000
Rural Assistance	0	2,600,000	0
Special Education Fund	32,242,100	32,242,100	32,242,100
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	530,818,900
Instructional Improvement Fund	56,782,100	45,000,000	45,000,000
Property Tax Relief			
Additional State Aid	397,230,700	410,546,000	432,618,200
Non-Formula Programs			
Accountability and Achievement Testing	16,420,800	16,423,700	16,420,800
Adult Education	4,498,100	4,636,500	4,630,500
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	0
College Credit by Examination Incentive Program	0	5,000,000	5,000,000
Early Literacy	0	8,000,000	12,000,000
English Learner Administration	6,495,000	6,519,000	6,495,000
Geographic Literacy	100,000	100,000	0
Jobs for Arizona Graduates	0	100,000	100,000
JTED Completion Grants	0	1,000,000	1,000,000
JTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000
School Safety Program	11,445,600	11,947,600	11,945,600
State Block Grant for Vocational Education	11,411,000	11,576,300	11,576,300
Teacher Certification	1,936,500	2,404,300	2,385,100
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	5,153,016,500	5,356,299,000
FUND SOURCES			
General Fund	4,079,045,400	4,226,958,400	4,394,604,800
<u>Other Appropriated Funds</u>			
Automation Projects Fund	0	3,000,000	0

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
Budget Stabilization Fund	0	2,600,000	0
Department of Education Empowerment Scholarship Account Fund	797,900	1,202,000	1,197,900
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	276,604,200
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	500,000	0	0
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	290,094,800
SUBTOTAL - Appropriated Funds	4,309,333,900	4,481,417,100	4,684,699,600
Expenditure Authority Funds			
Proposition 301	480,047,800	504,629,900	504,629,900
Proposition 301/Classroom Site Fund - Land Trust	96,487,500	83,093,400	83,093,400
Proposition 301/Classroom Site Fund - Carry-Forward	0	38,876,100	38,876,100
Tribal Gaming	56,782,100	45,000,000	45,000,000
SUBTOTAL - Expenditure Authority Funds	633,317,400	671,599,400	671,599,400
SUBTOTAL - Appropriated/Expenditure Authority Funds	4,942,651,300	5,153,016,500	5,356,299,000
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	6,340,586,200	6,543,868,700

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.

Summary

ADE's FY 2019 General Fund Baseline spending increases by \$167,646,400, or 4.0% above the FY 2018 appropriation. The Baseline includes prior year base adjustments, current law formula adjustments and the elimination of one-time funding from FY 2018:

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 \$95,310,000 for 1.3% Average Daily Membership (ADM) growth in FY 2019.
- An increase of \$104,941,100 for a 1.77% 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.
- An increase of \$11,000,000 for Results-Based Funding under the new A – F school grading system.

The current law formula adjustments total to \$155,356,500.

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 \$(100,000) to eliminate one-time funding for Geographic Literacy.
- A decrease of \$(154,900) to eliminate a one-time standard adjustment.

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$174,771,900 in FY 2020 above FY 2019 and \$198,099,700 in FY 2021 above FY 2020. (See *Other Issues for more information.*)

As a new change for FY 2019, the Baseline 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 it may spend whatever funding is available to it from them (see *New Footnotes section below*).

The Baseline displays Expenditure Authority for affected line items for FY 2017 and FY 2018 for comparability with FY 2019.

Operating Budget

The Baseline includes \$14,260,000 and 70 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$8,660,600
Department of Education Empowerment Scholarship Account Fund	1,197,900
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 Baseline 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 \$1,197,900 in ESA administration funding for FY 2019 after removal of a one-time health insurance adjustment (see *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 Baseline 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 Baseline 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.*)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(125,400) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

Table 1
FY 2019 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2018 Appropriation	\$3,595,498,400
Enrollment Growth @ 1.3%	95,310,000
1.77% Inflation	104,941,100
Property Taxes from New Construction	(53,142,800)
Property Tax – Statutory Changes	600,000
Endowment Earnings	(41,260,700)
Empowerment Scholarship Accounts	262,400
Special Education Fund Surplus	(8,000,000)
FY 2019 Baseline	\$3,694,208,400
Permanent State School Fund	
FY 2018 Appropriation	\$ 235,343,500
Estimated FY 2019 Growth ^{1/}	41,260,700
FY 2019 Baseline	\$ 276,604,200
Prop 301 Sales Tax (no change) ^{2/}	\$ 86,280,500
Local Property Taxes ^{2/}	
FY 2018 Base - estimated	\$2,484,411,400
Property Taxes from New Construction	53,142,800
FY 2019 Estimated ^{3/}	\$2,537,554,200
Grand Total (all sources) ^{4/ 5/}	\$6,594,647,300

- ^{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 \$432,618,200 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
- ^{4/} Statutory formula cost would be approximately \$402,029,800 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are assumed to continue in the Baseline on a session law basis, including the impact on non-state aid districts.
- ^{5/} Does not include \$50,000,000 for State Aid Supplement, \$65,419,100 for Additional Teacher Salary Increase, \$38,600,000 for Results-Based Funding and \$1,000,000 for JTED Completion Grants, as they all are appropriated to separate line items apart from Basic State Aid.

General Fund	(120,000)
Department of Education Empowerment Scholarship Account Fund	(4,100)
Teacher Certification Fund	(1,300)

(Please see the Technical Budget Assumptions section.)

Formula Programs

Basic State Aid

The Baseline includes \$4,057,093,100 in FY 2019 for Basic State Aid. This amount consists of:

General Fund	3,694,208,400
Permanent State School Fund	276,604,200
Proposition 301 Expenditure Authority	86,280,500

The \$4,057,093,100 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 an additional teacher salary increase, Results-Based Funding and JTED Completion Grants, as they all are appropriated through separate line items apart from Basic State Aid.

(See Other Issues for background information regarding the Basic State Aid formula.)

FY 2019 adjustments are as follows:

Enrollment Growth

The Baseline includes an increase of \$95,310,000 from the General Fund in FY 2019 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.3% 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 \$90,450,000 for charter growth (13,500 students X \$6,700 average formula cost per student) based on recent trends.

Table 2
K-12 ADM (unweighted) ^{1/}

Fiscal Year	District ^{2/}	Charter ^{3/}	Total	Change	% 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	206,508	1,123,948	14,400	1.3%
2020 est	918,384	220,344	1,138,728	14,780	1.3%
2021 est	919,335	234,226	1,153,561	14,833	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.

1.77% Inflation Adjustment

The Baseline includes an increase of \$104,941,100 from the General Fund in FY 2019 for a 1.77% 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 1.77% inflation adjustment increases the base level to \$3,748.46 versus \$3,683.27 for FY 2018.

A.R.S. § 15-901.01 (established by Proposition 301) requires the Legislature to increase the “base level or other components of the Revenue Control Limit” (RCL) by 2% or by the change in the GDP price deflator for the most recent prior calendar year, whichever is less. The assumed FY 2019 adjustment is 1.77%, which 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 \$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 Baseline includes a decrease of \$(53,142,800) from the General Fund in FY 2019 due to a projected 2.3% 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 2.92% in FY 2019, resulting in a net 5.22% NAV increase for new construction and existing property combined for FY 2019.

The projected 2.92% 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 \$3.93 (from \$4.05 currently) and the SETR will decrease to \$0.4737 (from \$0.4875 currently) in FY 2019 to offset the estimated 2.92% NAV increase for existing property (see Table 3).

Tax Rate	FY 2018	FY 2019
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.0234	\$1.9661
• Unified districts and elementary districts not located within a high school district	\$4.0468	\$3.9322
• State Equalization Tax Rate (SETR)	\$0.4875	\$0.4737

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 Baseline 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 Baseline includes a decrease of \$(41,260,700) from the General Fund and increase of \$41,260,700 from the Permanent State School Fund in FY 2019 for endowment earnings funding for Basic State Aid. This 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 (see Table 4).

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>204,341,200</u>	<u>16,357,200</u>
Total	\$235,343,500	\$276,604,200	\$41,260,700

- ^{1/} K-12 Endowment Earnings also help fund School Facilities Board (SFB) debt service through FY 2018 and the Classroom Site Fund (see Table 8).
- ^{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.

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).

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.)

One-Time Fund Shift

The Baseline includes a decrease of \$(8,000,000) from the General Fund in FY 2019 for a one-time shift of surplus monies from the Special Education Fund established by A.R.S. § 15-1202 to Basic State Aid. The Special Education Fund had a carry-forward balance of \$8,242,200 at the end of FY 2017 and receives enough new funding each year to cover annual costs of special education vouchers, which it funds. The Baseline therefore would transfer \$8,000,000 from the Special Education Fund to Basic State Aid on a one-time basis for FY 2019 to help fund the latter while eliminating unneeded fund balances in the former. The transfer would be authorized by the FY 2019 General Appropriation Act.

Rollover

The Baseline 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 would affect only school districts with more than 600 students, as has been the policy since FY 2013. The Baseline would continue to exempt small districts from the K-12 rollover in FY 2019, which would continue 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, will not appear in the FY 2019 General Appropriation Act. The Act, however, would advance appropriate \$930,727,700 from the General Fund in FY 2020 to fund the deferred FY 2019 obligation.

Additional Assistance Suspensions

The Baseline includes no change from the General Fund in FY 2019 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) statutory funding formulas. This would continue to suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2019.

School districts will receive approximately \$70,000,000 of DAA funding in FY 2019, including \$5,600,000 self-funded by non-state aid districts under current estimates. Without the continuing 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 \$358,000,000 of CAA funding in FY 2019. Without the continuing 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 Baseline assumes that the K-12 Education BRB for FY 2019 would increase the current statutory amounts (if fully funded) by 1.77% for inflation to \$1,806.47 per pupil for Grades K-8 and \$2,105.41 per pupil for Grades 9-12.

As in prior years, the Baseline would continue BRB language requiring non-state aid districts to reduce their budgets by the amount that their state aid would be reduced under continuing DAA suspensions if they 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 FY 2019 K-12 Education BRB also would continue to cap total statewide DAA reductions for school districts with fewer than 1,100 students at \$5,000,000 for FY 2019.

Empowerment Scholarship Accounts

The Baseline 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 Baseline 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.)*

Table 5
Empowerment Scholarship Account Data ^{1/}

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015	1,311	\$17,333,700
FY 2016	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.

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 5). 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.

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 Baseline 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 Baseline 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 Baseline, 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 Baseline 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 advance appropriated \$50,000,000 annually for FY 2017 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 for State Aid Supplement funding. (*See the FY 2017 Appropriations Report for more information regarding Proposition 123.*)

Chapter 1 included a footnote instructing the department to allocate the State Aid Supplement monies for FY 2016 to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943(2a) and to increase budget limits accordingly. The footnote also stipulates that a school district's weighted student count is to include non-resident students who attend school in the district. It further stipulates that a school district may budget its State Aid Supplement funding in either its Maintenance and Operation (M&O) or Unrestricted Capital Outlay Fund. These footnote provisions also were enacted into law in advance for FY 2017 through FY 2025 by Laws 2015, 1st Special Session, Chapter 1. As a result, these footnotes will 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 Baseline includes \$65,419,100 from the General Fund in FY 2019 for an additional teacher salary increase. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The Baseline includes a decrease of \$(1,688,400) from the General Fund in FY 2019 for a prior year base adjustment. The FY 2018 budget appropriated \$34,000,000 for an additional teacher salary increase for FY 2018, but the department estimates the actual cost at \$32,311,600

(\$1,688,400 less). The base budget for the program therefore needs to be decreased by \$(1,688,400) to \$32,311,600 going into FY 2019.

Additional Increase

The Baseline includes an increase of \$33,107,500 from the General Fund in FY 2019 for an additional 1.06% teacher salary increase for FY 2019 above the 1.06% additional teacher salary increase included in the FY 2018 budget. This amount assumes that the 1.06% additional teacher salary increase for FY 2018 will cost \$32,311,600 and that this amount will increase in FY 2019 by 2.5% for inflation and growth in the number of public school teachers statewide.

The Baseline would continue language from the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requiring a school district or charter school to use its allocation of monies from this line item to give its teachers additional salary increases. That language further stipulates that teacher salary increases funded by this line item shall supplement and not supplant any salary increases that a school district or charter school would have given its teachers apart from this line item. (*See the FY 2018 Appropriations Report for additional stipulations for this line item for FY 2018, which the Baseline would continue for FY 2019.*)

Results-Based Funding

The Baseline includes \$49,600,000 from the General Fund in FY 2018 for Results-Based Funding. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The Baseline 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 department estimates the actual cost at \$38,600,000 (\$1,000,000 higher). The base budget for the program therefore needs to be increased by \$1,000,000 to \$38,600,000 going into FY 2019 to fully fund the RBF formula. (*See FY 2018 Supplemental under Other Issues for more information.*)

New A – F Grading System

The Baseline includes an increase of \$11,000,000 from the General Fund in FY 2019 for an assumed increase in program eligibility under the new A – F school grading system being implemented in FY 2018. The RBF statute (A.R.S. § 15-249.08) limited program eligibility in FY 2018 to schools with AzMERIT scores in the top 10%, but starting in FY 2019 makes schools eligible if they had an "A" rating in the prior year.

This will increase the number of eligible schools by approximately 30% in FY 2019 under preliminary A – F data. The Baseline therefore increases program funding by approximately 30% (\$11,000,000) for FY 2019.

The \$11,000,000 estimate is preliminary and will be revised once final A – F grades for all schools for FY 2018 become available. Program funding for FY 2019 will be based on schools’ A – F ratings for FY 2018 pursuant to A.R.S. § 15-249.08B2.

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 Baseline 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 Baseline 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 Baseline includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2019 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2018.

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.

(See the One-Time Fund Shift policy issue under Basic State Aid for information regarding a transfer of surplus

Special Education Fund monies to Basic State Aid in FY 2019 under the Baseline.)

Other State Aid to Districts

The Baseline 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 Baseline includes \$530,818,900 in FY 2019 for the Classroom Site Fund (CSF). This amount consists of:

Proposition 301 Expenditure Authority	408,849,400
Proposition 301/CSF - Land Trust Expenditure Authority	83,093,400
Proposition 301/CSF - Carry-Forward Balance Expenditure Authority	38,876,100

These amounts are unchanged from FY 2018. They will be modified for FY 2019, however, when the JLBC Staff determines the CSF per pupil amount for FY 2019 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.

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 Baseline, 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.)

Instructional Improvement Fund

The Baseline 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 Baseline, 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 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.*)

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 Baseline includes \$432,618,200 from the General Fund in FY 2019 for Additional State Aid. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The Baseline 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, as reported by the Arizona Department of Revenue (DOR) in October 2017 pursuant to A.R.S. § 15-972H, is \$420,079,200 (\$9,533,200 more). Starting point costs for Additional State Aid for FY 2019 therefore will be \$9,533,200 more than the FY 2018 appropriation.

The Department of Education potentially will need supplemental funding for FY 2018 to cover the \$(9,533,200) current year shortfall. (*See FY 2018 Supplemental narrative under Other Issues for more information.*)

New Homes

The Baseline 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.

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 Baseline for more information.*)

The FY 2019 Baseline 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 Baseline includes \$16,420,800 and 28.4 FTE Positions in FY 2019 for Accountability and Achievement Testing.

These amounts consist of:

General Fund	9,420,800
Proposition 301 Fund (Appropriated)	7,000,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 6).

The Achievement Testing program, however, includes components other than AzMERIT testing. It also includes 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 6).

The Baseline 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 Baseline 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 *New Footnotes section below*). (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*.)

Table 6
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	<u>0.0</u>	<u>3.0</u>
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	<u>4.7</u>	<u>3.4</u>
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.

(See *Other Issues in FY 2016 Appropriations Report for more information regarding AzMERIT testing*.)

Adult Education

The Baseline includes \$4,630,500 and 4.3 FTE Positions in FY 2019 for Adult Education. These amounts consist of:

General Fund	4,498,200
Department of Education Professional Development Revolving Fund	132,300

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(6,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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 Baseline 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 Baseline includes no funding from the Automation Projects Fund in FY 2019 for Broadband Expansion. FY 2019 adjustments are as follows:

One-Time Funding

The Baseline includes a decrease of \$(3,000,000) from the Automation Projects Fund in FY 2019 to remove one-time funding for broadband expansion. The Baseline, however, would amend Section 120 of the FY 2018 General Appropriation Act to make the \$3,000,000 appropriation for FY 2018 non-lapsing through FY 2019 (see FY 2018 Supplemental narrative under Other Issues).

Section 120 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.)

College Credit by Examination Incentive Program

The Baseline 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.

Early Literacy

The Baseline includes \$12,000,000 from the General Fund in FY 2019 for Early Literacy. FY 2019 adjustments are as follows:

Program Increase

The Baseline 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 will 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.)

English Learner Administration

The Baseline includes \$6,495,000 and 14.5 FTE Positions from the General Fund in FY 2019 for English Learner Administration. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(24,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes no funding from the General Fund in FY 2019 for Geographic Literacy. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The Baseline includes a decrease of \$(100,000) from the General Fund in FY 2019 to eliminate one-time funding for Geographic Literacy.

The FY 2018 General Appropriation Act required the department to use the appropriated one-time amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in this state.

Jobs for Arizona Graduates

The Baseline includes \$100,000 from the General Fund in FY 2019 for a Jobs for Arizona Graduates program. This amount is unchanged from FY 2018.

A General Appropriation Act footnote requires the department to distribute program monies to a nonprofit organization for a Jobs for Arizona Graduates program.

JTED Completion Grants

The Baseline 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 Baseline 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 Baseline includes \$1,000,000 from the General Fund in FY 2019 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2018.

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 Baseline continues the footnote for FY 2019.

School Safety Program

The Baseline includes \$11,945,600 and 5.1 FTE Positions in FY 2019 for the School Safety program. These amounts consist of:

General Fund	4,145,600
Proposition 301 Expenditure Authority	7,800,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

Proposition 301 Expenditure Authority monies for School Safety were included in the department's non-appropriated funds totals in prior years. The Baseline, 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.*)

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. (*See the FY 2015 Appropriations Report for program history.*)

The FY 2018 K-12 Education BRB requires \$100,000 of the program's appropriation to be used for a pilot program on school emergency readiness. The FY 2018 K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2018 program by November 1, 2019. The Baseline continues these 2 BRB provisions.

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 Baseline 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 Baseline includes \$2,385,100 and 21.6 FTE Positions in FY 2019 for Teacher Certification. These amounts consist of:

General Fund	176,200
Teacher Certification Fund	2,208,900

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(19,200) from the Teacher Certification Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes no funding in FY 2019 for a Teacher Professional Development Pilot Program. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The Baseline 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 Baseline 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.)

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

The operating lump sum appropriation includes \$683,900 and 8.5 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services.

The 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.

Basic State Aid

The above appropriation provides basic state support to school districts for maintenance and operations funding as provided by A.R.S. § 15-973, and includes an estimated \$276,604,200 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2019.

Monies derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid shall be expended, whenever possible, before the expenditure of state General Fund monies.

Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest

collected on deferred payments on the purchase of state lands, income from the investment of permanent state school funds as prescribed by the Enabling Act and the Constitution of Arizona and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure may not be made except as specifically authorized above.

State Aid Supplement

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. *(This footnote will not appear in the FY 2019 General Appropriation Act as it is already enacted for FY 2016 through FY 2025 by Laws 2015, Chapter 1, 1st Special Session.)*

Additional Teacher Salary Increase

Each school district or charter school shall use its allocation from this line item only to CONTINUE FUNDING THE 1.06% TEACHER SALARY INCREASE FUNDED FROM THIS LINE ITEM FOR FY 2018 AND TO FUND AN ADDITIONAL 1.06% TEACHER SALARY INCREASE FOR FY 2019.

MONIES USED TO FUND AN ADDITIONAL 1.06% TEACHER SALARY INCREASE FOR FY 2019 SHALL increase the salary of each teacher who taught at an Arizona school district or charter school during the ~~2016-2017~~ 2017-2018 school year and who teaches at the school district or charter school during the ~~2017-2018~~ 2018-2019 school year by 1.06% in FY 2019. The 1.06% salary increase that a school district or charter school provides to each eligible teacher from this line item FOR FY 2019 shall be in addition to any other salary increase that the school district or charter school would have provided to the teacher for the ~~2017-2018~~ 2018-2019 school year apart from this line item. The 1.06% salary increase FOR FY 2019 shall supplement and not supplant any salary increase that the school district or charter school would have provided to the teacher for the ~~2017-2018~~ 2018-2019 school year apart from this line item.

The department of education shall use the appropriated amount to provide school districts and charter schools

with ~~funding~~ MONIES TO CONTINUE FUNDING THE 1.06% TEACHER SALARY INCREASE FUNDED FROM THIS LINE ITEM FOR FY 2018 AND for additional teacher salary increases for FY ~~2018~~ 2019.

On or before December 1, ~~2017~~ 2018, the department shall allocate to each school district and charter school in this state the amount of ~~funding~~ MONIES ALLOCATED TO IT IN FY 2018 FOR THE 1.06% TEACHER PAY RAISE FUNDED FROM THIS LINE ITEM FOR FY 2018 PLUS THE AMOUNT needed to increase by 1.06% IN FY 2019 the salary of each teacher who teaches at the school district or charter school during the ~~2017-2018~~ 2018-2019 school year and who taught at an Arizona school district or charter school during the ~~2016-2017~~ 2017-2018 school year, including the amount of ~~funding~~ MONIES needed to pay the employer share of related increases in Employee-Related Expenses for the Arizona State Retirement System or other employee retirement systems and the Federal Insurance Contributions Act. The employer share of employee-related retirement system expenses for a teacher not participating in the Arizona State Retirement System may not exceed expenses for a teacher participating in the Arizona State Retirement System. The 1.06% salary increase for each eligible teacher FOR FY 2019 shall be computed by the school district or charter school based on the teacher's teaching salary for the ~~2016-2017~~ 2017-2018 school year. The department shall add the amount computed for each school district and charter school pursuant to this paragraph to the base support level that otherwise would be computed for the school district or charter school for FY ~~2018~~ 2019 pursuant to A.R.S. § 15-943 or 15-943.02.

The members of a school district governing board or a charter school governing body shall conduct a separate vote regarding the allocation of monies that it receives from this line item. THE GOVERNING BOARD OR GOVERNING BODY ~~is~~ also shall notify teachers of the scheduled date and time of action of the board or body for this issue and shall transmit a notice of public hearing to the department of education for posting on the department's website at least ten days before the hearing. If the school district or charter school maintains a website, the school district or charter school shall post on its website the notice of the public hearing.

The members of the governing board of a school district or the governing body of a charter school shall attest on the page of the school district's or charter school's FY ~~2018~~ 2019 budget that the members sign that the budget adopted by the school district or charter school for FY ~~2018~~ 2019 meets the requirements of this line item. This attestation shall also pertain to the following information provided by the school district or charter school regarding

teachers who taught at an Arizona school district or charter school during the ~~2016-2017~~ 2017-2018 school year and who teach at the school district or charter school during the ~~2017-2018~~ 2018-2019 school year: the number of teachers, the total amount of teacher salaries for the ~~2016-2017~~ 2017-2018 school year, the total amount of teacher salaries for the ~~2017-2018~~ 2018-2019 school year apart from this line item, the total of the employer share of related increases in Employee-Related Expenses for required contributions to employee retirement systems and the Federal Insurance Contributions Act and the total amount of ~~funding~~ MONIES needed to increase by 1.06% the salary of each teacher who teaches at the school district or charter school during the ~~2017-2018~~ 2018-2019 school year and who taught at an Arizona school district or charter school during the ~~2016-2017~~ 2017-2018 school year.

A school district or charter school shall submit to the Department of Education the school district's or charter school's adopted budget. The department shall distribute ~~funding~~ MONIES for CONTINUING THE 1.06% TEACHER SALARY INCREASE FUNDED FROM THIS LINE ITEM FOR FY 2018 AND FOR THE additional teacher salary increases for FY ~~2018~~ 2019 based on the adopted budget. This calculation is subject to the independent annual audit of the school district or charter school pursuant to A.R.S. § 15-914. Any audit findings regarding the miscalculation of this line item shall be reported to the Department of Education and are subject to a budget correction pursuant to A.R.S. § 15-915.

Monies that a school district receives from this line item shall be included in the school district's general budget limit for the Maintenance and Operation Fund for FY ~~2018~~ 2019 pursuant to A.R.S. § 15-947. Monies that a joint technical education district receives from this line item shall be included in the joint technical education district's general budget limit for the Maintenance and Operation Fund for FY ~~2018~~ 2019 pursuant to A.R.S. § 15-947.01.

The Legislature and Governor intend for this appropriation to result in an increase in the compensation of Arizona's public schoolteachers for FY ~~2018~~ 2019 and ~~intend to include funding for an additional 1.06% teacher salary increase in FY 2019. Appropriations for teacher salary increases in FY 2019 shall be distributed in the same manner as distributions for FY 2018.~~

For the purposes of this footnote, "teacher" means a person who was eligible to be included in the year-end full-time equivalent teacher count of a school district or charter school for the ~~2016-2017~~ 2017-2018 school year in the Annual Financial Report of a school district or charter school for FY ~~2017~~ 2018 and who teaches at a

school district or charter school during the 2017-2018 2018-2019 school year. Teacher does not include purchased services personnel or substitute teachers.

Achievement Testing

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.

English Learner Administration

The Department of Education shall use the appropriated amount to provide English language acquisition services for the purposes of A.R.S. § 15-756.07 and for the costs of providing English language proficiency assessments, scoring and ancillary materials as prescribed by the Department of Education to school districts and charter schools for the purposes of Title 15, Chapter 7, Article 3.1, Arizona Revised Statutes. The Department of Education may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of A.R.S. § 15-756.07. Notwithstanding A.R.S. § 41-192, the Superintendent of Public Instruction also may use a portion of the appropriated amount to contract with one or more private attorneys to provide legal services in connection with the case of Flores v. State of Arizona, No. CIV 92-596-TUC-RCC.

JTED Completion Grants

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.

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.

The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations THROUGH FY 2020.

JTED Soft Capital and Equipment

The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts.

Other

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.

The department shall provide an updated report on its budget status every 3 months for the first half of each fiscal year and every month thereafter to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for Basic State Aid and other major formula-based programs and is due 30 days after the end of the applicable reporting period.

Within 15 days after each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall post on its website the amount of state aid apportioned to each recipient and the underlying data.

New Footnotes

(These footnotes would allow the department to spend all available funding from Proposition 301 and Tribal Gaming for their statutorily-designated purposes, including funding available in excess of budgeted amounts, if any.)

Operating Budget

Any monies available to the Department of Education for the Failing Schools Tutoring Fund pursuant to A.R.S. § 42-5029E8 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E8.

Any monies available to the Department of Education for Character Education pursuant to A.R.S. § 42-5029E6 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E8.

Basic State Aid

Any monies available to the Department of Education for Additional School Days pursuant to A.R.S. § 42-5029E5 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E5.

Classroom Site Fund

Any monies available to the Department of Education for the Classroom Site Fund pursuant to A.R.S. § 37-521B4 and A.R.S. § 42-5029E10 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 37-521B4 and A.R.S. § 42-5029E10.

Instructional Improvement Fund

Any monies available to the Department of Education for the Instructional Improvement Fund pursuant to A.R.S. § 15-979 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 15-979.

Accountability and Achievement Testing

Any monies available to the Department of Education for Accountability Purposes pursuant to A.R.S. § 42-5029E7 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E7.

School Safety

Any monies available to the Department of Education for School Safety pursuant to A.R.S. § 42-5029E6 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E6.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote requiring JLBC review of the department's expenditure plan for the \$400,000 increase in Empowerment Scholarship Account administrative funding in its FY 2018 budget since that funding is now part of the department's base budget.

The Baseline would delete footnotes concerning the one-time appropriations for Rural Assistance and Geographic Literacy.

STATUTORY CHANGES

The Baseline would make the following statutory changes:

Formula Requirements

- 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 1.77% for standard inflation.

Funding Formula Changes

- As session law, continue to reduce school districts' Additional Assistance state aid by \$352,442,700 and reduce budget limits accordingly.
- As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2019 by the amount that would be reduced if they did qualify for state aid for FY 2019 and reduce budget limits accordingly.
- As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
- As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.
- As session law, continue the provision in the FY 2018 budget stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.

Joint Technical Education Districts (JTEDs)

- As session law, continue to fund state aid for Joint Technical Education Districts (JTEDs) with more than 2,000 Average Daily Membership (ADM) students at 95.5% of the formula requirement and reduce budget limits accordingly.

Other

- As session law, continue to stipulate that \$100,000 of the state General Fund appropriation for the School Safety Program for FY 2019 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.
- As session law, continue to require the department to report to the Governor, President of the Senate and Speaker of the House of Representatives results of the pilot program on school emergency readiness by November 1 of the fiscal year.

Rollover

- As session law in the General Appropriation Act, continue to defer \$930,727,700 in Basic State Aid payments for FY 2019 until FY 2020. Appropriate \$930,727,700 in FY 2020 for these deferred Basic State Aid payments. Continue to exempt school districts with fewer than 600 students from the K-12 rollover. Allow the department to make the rollover payment on or after July 1, but no later than July 12, 2018.
- As session law in the General Appropriation Act, 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.

Deleted Provisions

The Baseline would delete the following session law provisions due to their one-time nature:

- As session law, notwithstanding A.R.S. § 15-907 to allow Duncan Unified School District to exceed its budget for a critical infrastructure repair without first applying to the School Facilities Board for Emergency Deficiency Corrections Fund monies.
- As session law, allow the Cave Creek Unified School District to increase its General Budget Limit by \$1,500,000 in FY 2018. *(At the time of enactment, this provision was described as being one-time, while a permanent solution was developed. Its deletion does not address the long-standing issue.)*

Other Issues

This section includes information on the following topics:

General Issues

- FY 2018 Supplemental
- Long-Term Budget Impacts

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers

Basic State Aid

- Basic State Aid Formula Description

Non-Formula Programs

- Education Learning and Accountability System
- Technology-Based Language Development and Literacy Intervention Pilot Program

Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

FY 2018 Supplemental

The Baseline includes \$10,533,200 from the General Fund for supplemental funding for the department for FY 2018. This total includes \$9,533,200 for Additional State Aid and \$1,000,000 for Results-Based Funding.

The \$9,533,200 supplemental for Additional State Aid is based on actual costs reported for the program for FY 2018 by the Arizona Department of Revenue in October

2017. *(See narrative for Additional State Aid line item for more information.)*

The \$1,000,000 supplemental for Results-Based Funding (RBF) is based on current estimates provided by the department. It is subject to change when final ADM counts for FY 2018 become available. *(See narrative for Results-Based Funding line item for more information.)*

These 2 shortfalls potentially could be offset by surpluses in Basic State Aid funding for FY 2018 depending on actual ADM growth for the year. The FY 2018 budget assumed 1.4% ADM growth, but preliminary data suggest that actual growth could be less. More data will be needed to determine the actual ADM growth rate for FY 2018.

In addition, the Baseline would amend Section 120 of the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) to make the \$3,000,000 appropriation from the Automation Projects Fund for Broadband Expansion for FY 2018 non-lapsing through FY 2019.

The Baselines continues a General Appropriation Act footnote authorizing the department to use a portion of its state General Fund appropriations for Basic State Aid (BSA) and Additional State Aid (ASA) for the current year (now FY 2019) to fund a shortfall in funding for BSA or ASA, if any, that occurred in the prior year (now FY 2018) after review by the Joint Legislative Budget Committee (JLBC).

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$174,771,900 in FY 2020 above FY 2019 and \$198,099,700 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 2.01% for FY 2020 and 2.18% 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 surplus Special Education Fund monies being available for FY 2019 only.

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 7*).

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	320.4
Total	129.2	350.5	349.8	375.5

^{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 7 shows that K-12 endowment earnings are estimated to equal \$349.8 million in FY 2018 and \$375.5 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 8*). 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.*)

Source	2015	2017	2018 ^{1/}	2019 ^{1/}
Basic State Aid	47.3	219.3	235.3	276.6
SFB Debt Service	25.0	24.9	24.9	0 ^{3/}
Classroom Site Fund ^{2/}	56.9	106.3	89.6	98.9
Total	129.2	350.5	349.8	375.5

^{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 end after FY 2018.

Proposition 123 Triggers

Proposition 123 allows the state to temporarily suspend future inflation increases during periods of economic slowdown in which sales tax revenue and employment both grew more than 1% but less than 2% in the prior year [if only one factor falls into the 1-2% range, there is no suspension]. It would require this suspension if sales tax revenue and employment both grew less than 1%. Since 1992, economic conditions would have met the 1-2% threshold in 1 year and would have met the 1% threshold in 3 years.

The proposition also allows the state to reduce the 6.9% distribution rate to no less than 2.5% for the following fiscal year if the 5-year average balance of the State Land Trust Permanent Fund fell below the average balance of the preceding 5 years. The criteria for reducing the distribution rate would not have been met in the last 10 years, as no 5-year period since 2001 has averaged a lower balance than the preceding 5 years.

Beginning in FY 2026, the proposition allows (but does not require) the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpassed 49% of the total state General Fund appropriations. If K-12 spending surpassed 50%, the state could temporarily suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount. Currently, K-12 spending constitutes approximately 42% of total state General Fund appropriations.

(Please see the FY 2017 Appropriations Report for more information on Proposition 123.)

Basic State Aid Formula Description

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula "equalizes" formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base 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 2018 equal \$1,775.05 per pupil for Grades K-8 and \$2,068.79 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Education Learning and Accountability System

The Baseline includes no funding from the Automation Projects Fund (APF) for implementing, upgrading and maintaining ELAS. This eliminates \$7,300,000 in one-time funding appropriated for ELAS by Section 115 of Laws 2017, Chapter 305 (the General Appropriation Act for FY 2018).

Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (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).

Since FY 2015, ELAS funding has been appropriated to the Arizona Department of Administration (ADOA) rather than ADE. As a result, ELAS funding no longer appears in the ADE Baseline. If this project is funded again in FY 2019, however, the JLBC Staff recommends that the resources be appropriated directly to ADE rather than ADOA. This shift will align resources with the agency actually expending the funds for this project. In addition, JLBC Staff recommends that before expending additional monies for the project, ADE shall submit an expenditure plan to JLBC for review. Any additional monies would be non-lapsing for 2 years.

For FY 2018, the department planned to spend \$5.3 million of its \$7.3 million ELAS appropriation on maintenance and operation of the system and \$2.0 million on further development. That expenditure plan was approved by the JLBC at its June 2017 meeting.

ADE estimates that an additional \$20.0 million will be needed from the General Fund to complete ELAS development over the next 3 fiscal years. This amount will be in addition to the \$5.3 million of annual operating expenses.

ELAS has received approximately \$61.1 million in total funding from all sources since its inception, including the \$7.3 million appropriated from the General Fund for FY 2018. The General Fund has provided \$45.8 million of the \$60.3 million total with the remainder coming from temporary fees from university and community college students (approximately \$7.2 million cumulatively) and Federal Funds (approximately \$7.3 million cumulatively) (see Table 9).

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. (Full functionality not yet implemented.)

Table 9

ELAS Funding by Fiscal Year
(\$ in Millions)

Fiscal Year	General Fund	Higher Ed Fees ^{1/}	Federal Grants ^{2/}	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
Total	45.8	8.0	7.3	61.1

^{1/} Generated from a \$6 per FTSE fee from university and community college pupils. The FY 2012 and FY 2013 budgets appropriated \$1.2 million based on initial estimates. Amount generated above those totals were carried forward into subsequent years.

^{2/} Included \$5.0 million from a statewide longitudinal data system (SLDS) grant and \$2.3 million from a "Race to the Top" grant.

- Develop and partially implement a Statewide Student Information System (SSIS) that school districts and charters can opt into in order to purchase student information system services at a state-contracted rate.
- Automate school finance calculations for components computed manually under SAIS, such as for Classroom Site Fund per pupil allocations.
- Begin planning to replace the core school finance calculation functions of SAIS ("APOR" and "CHAR"), which calculate funding amounts for individual school districts and charter schools under the Basic State Aid formula.

Starting in FY 2017, all schools submitted student data through AzEDS rather than through the old Student Accountability Information System (SAIS) for the first time, and school payments were based on student counts from AzEDS rather than SAIS. SAIS continues to be used to calculate formula payments for individual school districts and charter schools using AzEDS data, however, because the formula calculation functions of SAIS (APOR and CHAR) have not yet been replaced in ELAS.

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

Technology-Based Language Development and Literacy Intervention Pilot Program

The FY 2015 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 17) established a 2-year pilot program for a Technology-Based Language Development and Literacy Intervention for English language learners in kindergarten to 6th grade. The goal of the program is to

help these students learn to read English faster using software that provides individualized reading instruction.

Results from the pilot's first year, FY 2017, suggest a positive impact on participants' reading levels, but a more complete analysis of their gains on AZELLA/AzMERIT scores compared to nonparticipants has not yet been completed.

The pilot has funding through FY 2018, and A.R.S. § 15-217G requires the State Board of Education (SBE) to submit a final report on the program's effectiveness by September 2018 with a recommendation as to whether it should be continued and/or expanded into a permanent statewide program.

Due to the timing of when SBE's recommendation will be provided, the Legislature will have to decide during the upcoming session—prior to receiving the recommendation—whether to appropriate additional funds for the program in FY 2019. Since the pilot's original funding source was provided by one-time monies, there is no funding for the program in the FY 2019 Baseline. ADE has not requested funding for the program in its FY 2019 agency budget request.

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 10*).

As shown in *Table 10*, Proposition 301 revenues are earmarked for the following items:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction (those bonds will be paid off by the end of FY 2018).
- 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 10*). The Proposition 301 sales tax expires after FY 2021.

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 10*).

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 \$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 10*. 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 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).

Table 10

PROPOSITION 301 SALES TAX REVENUES		Proposition 301 Monies (FY 2017 Actual) (\$ in Millions)
<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
School Facilities Board	\$64.1	For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	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.

M&O and Special Program overrides together are capped at 15% of a district’s Revenue Control Limit (RCL). (“RCL” essentially equals a district’s total funding under the Basic State Aid formula minus its District Additional Assistance funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district’s RCL.

M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 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 11). (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 11* are from the related ADE reports for FY 2017 and FY 2018.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Agricultural Youth Organization Special Plate Fund (EDA2650/A.R.S. § 15-791)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal Arizona agricultural youth organization special plate fee, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue Arizona agricultural youth organization special plates. ADOT is to annually deposit these monies, excluding administrative fees, into the Arizona Agricultural Youth Organization Special Plate Fund for disbursement by the State Board of Education acting as the State Board for Vocational and Technological Education.		
Funds Expended	169,200	169,200
Year-End Fund Balance	0	5,800
Assistance for Education Fund (EDA2420/A.R.S. § 15-973.01)		Non-Appropriated
Source of Revenue: State income tax refunds that are donated to the fund via a check-off box on state income tax forms pursuant to A.R.S. § 43-617.		
Purpose of Fund: To fund solutions teams assigned to schools pursuant to A.R.S. § 15-241.02.		
Funds Expended	44,200	28,500
Year-End Fund Balance	0	0
Automation Projects Fund (EDA2566/A.R.S. § 41-714)		Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To implement, upgrade, or maintain automation and information technology projects for any state agency. For FY 2018, \$3,000,000 is appropriated from the Automation Projects Fund to the Broadband Expansion Fund for broadband expansion.		
Funds Expended	0	3,000,000
Year-End Fund Balance	0	0
Broadband Expansion Fund (EDA2145/A.R.S. § 15-249.07)		Non-Appropriated
Source of Revenue: Monies appropriated from the Automation Projects Fund.		
Purpose of Fund: To provide state matching monies for certified broadband connectivity construction projects for qualified applicants. Expenditures are not displayed to avoid double counting of the Automation Projects Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Budget Stabilization Fund (EDA3034/A.R.S. § 35-144)		Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: Laws 2017, Chapter 305, Section 123 appropriated \$3,000,000 in one-time funding from the Budget Stabilization Fund to the department for FY 2018 for Rural Assistance.		
Funds Expended	0	2,600,000
Year-End Fund Balance	0	0
Character Education Special Plate Fund (EDA2522/A.R.S. § 15-719)		Non-Appropriated
Source of Revenue: \$17 of the \$25 fee for Character Education license plates.		
Purpose of Fund: To fund character education programs in schools. Not more than 10% of monies deposited in the fund annually shall be used for the cost of administering the fund.		
Funds Expended	30,600	31,500
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Department of Education Empowerment Scholarship Account Fund (EDA2570/A.R.S. § 15-2402)		Partially-Appropriated
<i>Source of Revenue:</i> Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C and prior year carry-forward monies.		
<i>Purpose of Fund:</i> To fund ADE's costs of administering the Empowerment Scholarships Accounts (ESA) program authorized by A.R.S. § 15-2402. In addition, ADE transfers Basic State Aid (BSA) monies to the State Treasurer and Department of Revenue (DOR) to fund their ESA administrative duties and to the State Treasurer to fund the ESA accounts themselves. The FY 2017 transfer for the latter was approximately \$46 million. The student account monies and monies transferred to the State Treasurer and DOR for ESA administration are not displayed to avoid double counting of the General Fund. Non-appropriated monies in the fund are prior year carry-forward. (See the <i>Summary of Funds and budget narrative for the State Treasurer and DOR for more information on their respective ESA administrative funding.</i>)		
Appropriated Funds Expended	797,900	1,202,000
Non-Appropriated Funds Expended	15,200	0
Year-End Fund Balance	1,885,100	2,943,600
Department of Education Professional Development Revolving Fund (EDA2580/A.R.S. § 15-237.01)		Appropriated
<i>Source of Revenue:</i> Tuition paid for professional development, pursuant to A.R.S. § 15-237.01.		
<i>Purpose of Fund:</i> To offset the cost of providing professional development.		
Funds Expended	249,400	2,700,000
Year-End Fund Balance	151,200	151,200
Early Literacy Grant Program Fund (EDA2181/A.R.S. § 15-249.09)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations from the state General Fund.		
<i>Purpose of Fund:</i> Provide support to improve reading skills, literacy and proficiency for students in Grades K-3 in addition to monies received pursuant to A.R.S. § 15-211. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Education Commodity Fund (EDA4210/A.R.S. § 15-1152)		Non-Appropriated
<i>Source of Revenue:</i> Fees from school districts participating in the federal Food Commodities Program.		
<i>Purpose of Fund:</i> To pay for costs of administering the federal Food Commodities Program.		
Funds Expended	272,200	353,300
Year-End Fund Balance	409,100	505,800
Education Donations Fund (EDA2025/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Grants received by the department from foundations or other private sector donors.		
<i>Purpose of Fund:</i> To help pay for conferences, programs or other activities sponsored by donor organizations.		
Funds Expended	24,300	4,000
Year-End Fund Balance	413,100	465,600
Education Learning and Accountability Fund (EDA2552/A.R.S. § 15-249.02)		Non-Appropriated
<i>Source of Revenue:</i> Monies transferred from the Arizona Department of Administration (ADOA) Automation Projects Fund (APF), which for FY 2018 received \$7,300,000 from the State General Fund for the Education Learning and Accountability System (ELAS), plus any remaining FY 2017 balances in the fund. Expenditures are not displayed to avoid double counting of the General Fund.		
<i>Purpose of Fund:</i> To develop and implement ELAS pursuant to A.R.S. § 15-249.		
Funds Expended	0	0
Year-End Fund Balance	130,400	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Funds (EDA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
<i>Purpose of Fund:</i> To be expended as stipulated by federal statutes that authorize the Federal grants.		
Funds Expended	1,141,087,700	1,158,886,800
Year-End Fund Balance	4,279,300	4,671,700
Golden Rule Special Plate Fund (EDA2366/A.R.S. § 15-243)		Non-Appropriated
<i>Source of Revenue:</i> \$17 of the \$25 fee for Golden Rule license plates.		
<i>Purpose of Fund:</i> To fund programs that demonstrate the promotion of the golden rule in schools and communities.		
Funds Expended	219,100	219,100
Year-End Fund Balance	0	5,900
IGA and ISA Fund (EDA2500/A.R.S. § 35-142E)		Non-Appropriated
<i>Source of Revenue:</i> Monies transferred into the fund from Federal Funds (EDA2000) and the Internal Services Fund (EDA4209).		
<i>Purpose of Fund:</i> Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
Funds Expended	19,677,600	13,637,100
Year-End Fund Balance	1,335,600	1,689,500
Indirect Cost Recovery Fund (EDA9000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
<i>Purpose of Fund:</i> To fund overhead and other indirect costs associated with state level administration of federal programs.		
Funds Expended	5,473,800	7,293,200
Year-End Fund Balance	1,728,600	885,400
Internal Services Fund (EDA4209/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal indirect cost monies and intra-office fees for copier services, MIS maintenance, postage and other miscellaneous expenditures.		
<i>Purpose of Fund:</i> Clearing fund for federal indirect costs and miscellaneous intra-office revenues and expenditures.		
Funds Expended	4,651,100	5,463,600
Year-End Fund Balance	2,433,900	1,570,300
Permanent State School Fund (EDA3138/A.R.S. § 37-521)		Partially-Appropriated
<p><i>Source of Revenue:</i> Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund, up to the amount generated in FY 2001 (\$72,263,000), are automatically appropriated first to pay for debt service, if any, on State School Facilities Revenue Bonds, Qualified Zone Academy Bonds (QZAB) or State School Trust Revenue Bonds. (All of those bonds will be paid off by the end of FY 2018, however, so will no longer require debt service payments after that time.) Any remaining monies from the \$72,263,000 baseline total (the entire amount starting in FY 2019) are then subject to appropriation to ADE to help fund Basic State Aid pursuant to A.R.S. § 15-971H. Expendable earnings beyond the \$72,263,000 baseline total from FY 2001 are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4, except that expendable earnings above \$72,263,000 that are attributable to Proposition 123 are instead used for Basic State Aid.</p>		
<p>In the display below, the "Funds Expended" total equals the amount used for Basic State Aid. Not included are monies automatically appropriated into the Classroom Site Fund pursuant to A.R.S. § 37-521B4. (See "State Land Trust Bond Debt Service Fund" and "School Improvement Revenue Bond Debt Service Fund" in the Summary of Funds for the School Facilities Board budget for information on other uses of expendable monies from this fund.)</p>		
<i>Purpose of Fund:</i> To support common schools.		
Funds Expended	219,804,200	235,343,500
Year-End Fund Balance	209,500	209,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Production Revolving Fund (EDA4211/A.R.S. § 15-237)		Non-Appropriated
Source of Revenue: Print shop collections from in-house and interagency publishing.		
Purpose of Fund: To fund agency print shop expenditures.		
Funds Expended	1,048,500	1,457,400
Year-End Fund Balance	1,071,100	863,700
Proposition 301 (EDA9001/A.R.S. § 15-977)		Expenditure Authority
Source of Revenue: The portion of the Proposition 301 sales tax allocated to the Department of Education pursuant to A.R.S. § 42-5029E, except for monies appropriated for school accountability pursuant to A.R.S. § 42-5029E7. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 42-5029E.		
Purpose of Fund: To fund additional school days, school safety, character education, the Failing Schools Tutoring Fund and the Classroom Site Fund. The latter provides additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
Funds Expended	480,047,800	504,629,900
Year-End Fund Balance	3,038,900	3,038,900
Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7)		Appropriated
Source of Revenue: Proposition 301 monies appropriated by the Legislature pursuant to A.R.S. § 42-5029E7.		
Purpose of Fund: To fund school accountability. For FY 2018 the entire \$7,000,000 amount is appropriated to the Accountability and Achievement Testing line item in the department's budget.		
Funds Expended	7,000,000	7,000,000
Year-End Fund Balance	0	0
Proposition 301/Classroom Site Fund - Carry-Forward (EDA9003/A.R.S. § 15-977)		Expenditure Authority
Source of Revenue: Carry-forward balances from prior year revenues to the Classroom Site Fund. Classroom Site Fund revenues consist of a portion of the Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E10, and Permanent State School Fund expendable earnings that exceed the FY 2001 level, pursuant to A.R.S. § 37-521B4. Under A.R.S. § 15-977, the per pupil amount distributed each from the Classroom Site Fund is adjusted for any prior year carry-forward or shortfall. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 42-5029E10 (Classroom Site Fund).		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
Funds Expended	0	38,876,100
Year-End Fund Balance	68,700,800	29,824,700
Proposition 301/Classroom Site Fund - Land Trust (EDA9002/A.R.S. § 37-521)		Expenditure Authority
Source of Revenue: Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund above the amount generated in FY 2001 (\$72,263,000) are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 42-5029E10 (Classroom Site Fund).		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
Funds Expended	96,487,500	83,093,400
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Results-Based Funding Fund (EDA2151/A.R.S. § 15-249.08)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations from the state General Fund.		
<i>Purpose of Fund:</i> Provide additional funding to high performing schools under a formula prescribed in A.R.S. § 15-249.08. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Rural STEM Program Fund (EDA3046/A.R.S. § 15-249.11)		Non-Appropriated
<i>Source of Revenue:</i> Monies appropriated by the Legislature and grants, gifts, devices and donations from any public or private source.		
<i>Purpose of Fund:</i> To support science, technology, engineering and math programs in rural schools.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Special Education Fund (EDA1009/A.R.S. § 15-1182)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations from the state General Fund.		
<i>Purpose of Fund:</i> To provide voucher funding for students attending the ASDB pursuant to A.R.S. § 15-1182 or who are placed in a private special education facility pursuant to A.R.S. § 15-1202. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	8,242,200	6,175,400
Structured English Immersion Fund (EDA2535/A.R.S. § 15-756.04)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations from the state General Fund.		
<i>Purpose of Fund:</i> To fund additional instructional costs of English Language Learners. Expenditures are not displayed to avoid double counting General Fund.		
Funds Expended	0	0
Year-End Fund Balance	3,235,400	3,500,000
Teacher Certification Fund (EDA2399/A.R.S. § 15-248.02)		Appropriated
<i>Source of Revenue:</i> Fees collected by the Department of Education from teachers and other school personnel who apply for professional certification.		
<i>Purpose of Fund:</i> To provide monies for operation of the department's Teacher Certification program.		
Funds Expended	1,814,000	2,363,200
Year-End Fund Balance*	196,600	(266,600)
Technology-Based Language Development and Literacy Intervention Fund (EDA2579/A.R.S. § 15-217)		Appropriated
<i>Source of Revenue:</i> Unused monies from the now-repealed Early Graduation Scholarship Program. The FY 2015 K-12 Education Budget Reconciliation Bill (Laws 2014, Chapter 17) required the Commission for Postsecondary Education to transfer these monies (\$546,800) into the fund from its IGA/ISA Fund by August 1, 2014. As session law, Chapter 17 also appropriated \$300,000 annually from the new fund in FY 2015 and FY 2016 for the pilot program. Laws 2016, Chapter 124 made program monies non-lapsing through FY 2018. Expenditures are not displayed to avoid double counting of appropriations.		
<i>Purpose of Fund:</i> To fund a pilot program to promote English language development and literacy for public school pupils in Grades K-6.		
Funds Expended	0	0
Year-End Fund Balance	232,300	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Tribal College Dual Enrollment Program Fund (EDA2595/A.R.S. § 15-244.01)		Appropriated
Source of Revenue: Unclaimed lottery prize monies pursuant to A.R.S. § 5-568, other monies appropriated by the Legislature and gifts, grants, devices and other contributions. Laws 2016, Chapter 124 allows \$250,000 of unclaimed lottery prize monies to be transferred to the fund annually.		
Purpose of Fund: To provide choice and access to higher education for high school students in this state by compensating tribal colleges for tuition and fees that are waived to allow high school students to attend classes at tribal colleges.		
Funds Expended	123,000	250,000
Year-End Fund Balance	288,800	288,800
Tribal Gaming (EDA9004/A.R.S. § 15-979)		Expenditure Authority
Source of Revenue: Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 15-979.		
Purpose of Fund: To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
Funds Expended	56,782,100	45,000,000
Year-End Fund Balance	1,049,100	1,280,300
State Web Portal Fund (EDA2531/A.R.S. § 18-421)		Appropriated
Source of Revenue: Grants, donations, and web portal revenues, including any fees collected from the sale of certain types of motor vehicle records to commercial customers, less revenues deposited into the Highway User Revenue Fund, as stipulated in A.R.S. § 41-3506.		
Purpose of Fund: To maintain and upgrade the state's common web portal, including enhancement of existing products and the development of new applications. In addition, Laws 2016, Chapter 124 established a Code Writer's pilot program and appropriated \$500,000 in non-lapsing monies to it from the fund for FY 2017. Monies received from private grants or donations, as well as federal grants, are non-appropriated. <i>(See the Automation Projects Fund page for more details.)</i>		
Funds Expended	500,000	0
Year-End Fund Balance	0	0
Youth Farm Loan Fund (EDA2136/A.R.S. § 15-1172)		Non-Appropriated
Source of Revenue: The investment of trust funds held by the United States as trustee for the Arizona Rural Rehabilitation Corporation.		
Purpose of Fund: To furnish financial assistance to deserving young persons, under 25 years of age, who are students or former students of vocational education or to young farmers in organized vocational agriculture classes who are interested in becoming established in farming. The financial assistance is provided as guaranteed loans for those who cannot obtain financing elsewhere.		
Funds Expended	0	26,000
Year-End Fund Balance	161,800	137,600

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

Department of Emergency and Military Affairs

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
PROGRAM BUDGET			
Administration	1,864,000	1,920,500	1,883,500
Emergency Management	7,692,600	7,716,400	7,733,400
Military Affairs	1,812,500	3,039,800	3,039,800
AGENCY TOTAL	11,369,100	12,676,700	12,656,700
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.6	69.6	69.6
Personal Services	1,711,000	2,108,200	2,108,200
Employee Related Expenditures	587,000	728,900	728,900
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	842,800
Equipment	38,400	0	0
OPERATING SUBTOTAL	4,344,300	5,601,200	3,864,200
SPECIAL LINE ITEMS			
Emergency Management Matching Funds	1,540,900	1,547,100	1,540,900
Governor's Emergency Fund	4,000,000	4,000,000	4,000,000
Nuclear Emergency Management Program	1,424,300	1,438,400	1,461,600
Military Airport Planning	59,600	90,000	90,000
National Guard Matching Funds	0	0	1,700,000
AGENCY TOTAL	11,369,100	12,676,700	12,656,700
FUND SOURCES			
General Fund	11,369,100	11,238,300	11,195,100
<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	12,656,700
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	68,213,800

AGENCY DESCRIPTION — The department's Emergency Management Program prepares and coordinates emergency response plans for the state. The Military Affairs Program operates the Arizona National Guard and the Military Installation Fund Program.

Operating Budget

The Baseline includes \$3,864,200 and 63.1 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Operating Budget Shift

The Baseline 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.)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(37,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions section.)

Emergency Management Matching Funds

The Baseline includes \$1,540,900 from the General Fund in FY 2019 for Emergency Management Matching Funds. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(6,200) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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 Baseline 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 Baseline 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.

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 Baseline 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.

Table 1

Nuclear Emergency Management Fund

<u>Agency</u>	<u>FY 2017</u>		<u>FY 2018</u>		<u>FY 2019</u>	
	<u>FTEs</u>	<u>Approp.</u>	<u>FTEs</u>	<u>Approp.</u>	<u>FTEs</u>	<u>Approp.</u>
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.

Prior to receiving a one-time deposit of \$2,500,000 in FY 2015, the Military Installation Fund had received no General Fund appropriation since FY 2011. The FY 2012 General Government BRB eliminated the annual \$4,825,000 General Fund deposit into the Military Installation Fund in statute. A.R.S. § 26-263 retained the annual \$90,000 and 1 FTE Position administrative appropriation to the department and an annual \$85,000 appropriation to the Attorney General. Since these monies are appropriated in statute, they do not appear in the General Appropriation Act.

As of July 2017, the fund had an unreserved balance of \$1,839,900. 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. (Please see *Other Issues for a discussion on Military Airport Planning Reforms.*)

National Guard Matching Funds

The Baseline 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 Baseline 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 Baseline 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.

* * *

FORMAT — Lump Sum by Program with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The National Guard Matching Funds line item includes \$1,700,000 for service contracts. This amount is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2019 monies remaining unexpended and unencumbered on December 31, 2019 revert to the state General Fund.

STATUTORY CHANGES

The Joint Committee on Capital Review (JCCR) reviewed several Military Installation Fund proposals in the last year. As a result of this review, the Baseline proposes several statutory changes to the Military Installation Fund (MIF) process:

- As permanent law, codify in statute the process for determining a property’s market value as described in the Administrative Code. DEMA will continue to be prohibited from paying more than the fair market value and be required to have the property appraised by a professional appraiser.
 - As permanent law, codify in statute the appeals process as described in the Administrative Code. This language allows the seller of the property to appeal a denial of funding as well as the proposed purchase price or the fair market value determined by DEMA,
- only if the amount is less than the seller’s initial asking price.
 - As permanent law, direct the Adjutant General to consult with the Arizona Department of Administration, which would then contract with an appraiser to perform a second appraisal of the property. DEMA would no longer be required to receive an appraisal from the Land Department.
 - As permanent law, require any entity that utilizes the MIF for property acquisition to obtain a property appraisal prior to requesting a review by the JCCR.
 - As permanent law, require that DEMA provide to the JCCR the owner of record, a map of the property, and annual property taxes paid for every proposed land purchase to the JCCR. For instances where DEMA is purchasing an easement on a property, also require DEMA to provide details on the proposed easement and any agreement with a third-party to manage the easement.
 - As permanent law, prohibit grant monies to cities, towns, or counties from being used for land acquisitions. This change is proposed in response to a recent grant to Pima County for a property purchase DEMA could have done directly. When DEMA grants money to a third party for a property purchase, it is less efficient and less transparent.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Camp Navajo Fund (MAA2106/A.R.S. § 26-152)		Non-Appropriated
Source of Revenue: Federal fees for storage and use of Camp Navajo, a munitions storage depot and National Guard training site.		
Purpose of Fund: To operate and maintain the Camp Navajo National Guard training and storage facility and for the operation and maintenance of National Guard facilities in Arizona.		
Funds Expended	13,809,100	17,103,500
Year-End Fund Balance	10,591,100	6,831,300
Emergency Management Assistance Compact Revolving Fund (MAA2602/A.R.S. § 26-403)		Non-Appropriated
Source of Revenue: Monies appropriated by the Legislature and monies received as reimbursement for costs incurred by this state while rendering aid as prescribed in A.R.S. § 26-402.		
Purpose of Fund: To pay costs incurred by the state while assisting other states with emergencies or natural disasters.		
Funds Expended	0	0
Year-End Fund Balance	279,600	279,600
Federal Funds - Emergency (MAA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal program grants.		
Purpose of Fund: To pay for the federal share of emergency planning, response and management programs.		
Funds Expended	9,605,300	13,314,500
Year-End Fund Balance	351,700	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Funds - Military (MAA2000 B/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal service contracts for security, maintenance and operations of the National Guard.		
Purpose of Fund: To provide the federal share of costs for Army National Guard and Air National Guard positions, capital and operating expenses.		
Funds Expended	33,367,900	38,074,500
Year-End Fund Balance	1,740,500	3,401,100
Indirect Cost Recovery Fund (MAA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal FEMA Grants and Non-Appropriated Funds.		
Purpose of Fund: To pay administrative expenditures not directly attributable to any one program, but associated with Federal Grant and Non-Appropriated funds.		
Funds Expended	648,700	983,400
Year-End Fund Balance	731,800	514,600
Interagency Service Agreement Fund (MAA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Funds from federal grants.		
Purpose of Fund: Support of the agency's centralized personnel plan which allocates support staff costs to National Guard grants and the agency's mail distribution program in addition to agreements within and outside the agency.		
Funds Expended	888,000	1,018,800
Year-End Fund Balance	714,600	244,500
Military Installation Fund (MAA1010/A.R.S. § 26-262)		Non-Appropriated
Source of Revenue: The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) provided a one-time deposit of \$2,500,000 into the fund. Currently, the fund's sole revenue source is the collection of interest from the balance in the fund. Expenditures from this fund are not displayed below to avoid double counting.		
Purpose of Fund: Grants for military installation preservation and enhancement projects as well as costs associated with administering the fund. DEMA must utilize 80% of the monies to acquire private property, real estate, property rights and related infrastructure to preserve, support, or enhance a military installation. Up to 20% of this amount may be awarded to cities, towns, and counties for land acquisition purposes. The remaining 20% is awarded to cities, towns, and counties for military installation preservation and enhancement projects. In addition, \$90,000 is appropriated to the department for the costs associated with 1 FTE Position to administer the fund.		
Funds Expended	0	0
Year-End Fund Balance	3,509,400	1,788,000
Morale, Welfare and Recreational Fund (MAA2124/A.R.S. § 26-153)		Non-Appropriated
Source of Revenue: A portion of National Guard Member Special License Plate fees, funds generated from federally-defined recycling activities, monies from the disposal of unserviceable military property belonging to the state, or other non-state-appropriated monies.		
Purpose of Fund: To support morale, welfare, and recreational activities for guardsmen and non-state-employed support personnel.		
Funds Expended	19,100	220,000
Year-End Fund Balance	189,700	54,700
National Guard Fund (MAA2140/A.R.S. § 26-152)		Non-Appropriated
Source of Revenue: Monies appropriated to the fund by the Legislature and proceeds, deposited into a separate subaccount, from National Guard facilities that are utilized for commercial purposes.		
Purpose of Fund: For general operating expenses of the National Guard and maintenance and capital improvements to any National Guard facility.		
Funds Expended	59,000	200,000
Year-End Fund Balance	132,300	22,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Nuclear Emergency Management Fund (MMA2138/A.R.S. § 26-306.02)		Appropriated
<p>Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station. Laws 2017, Chapter 43 appropriates \$1,438,465 in FY 2018 and \$1,461,602 in FY 2019 to the Department of Emergency and Military Affairs.</p> <p>Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Laws 2015, Chapter 132 appropriated \$1,424,377 from the General Fund in FY 2017 to be deposited into the fund. The FY 2017 General Fund expenditures are not displayed to avoid double counting of appropriated funds. Laws 2017, Chapter 43 established the fund as an appropriated fund with fees directed to the Nuclear Emergency Management Fund rather than the General Fund.</p>		
Funds Expended	0	1,438,400
Year-End Fund Balance	0	0

Department of Environmental Quality

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	8,164,300
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	14,211,400
Equipment	265,100	343,800	343,800
OPERATING SUBTOTAL	34,161,000	46,589,600	46,290,400
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	1,800,000
WQARF Priority Site Remediation	9,948,600	13,536,900	7,000,000
AGENCY TOTAL	66,380,400	83,046,000	76,209,900
FUND SOURCES			
General Fund	2,823,600	2,823,600	2,823,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	6,452,100	7,381,900	7,461,400
Emergency Response Fund	112,600	132,800	132,800
Emissions Inspection Fund	29,397,600	30,610,100	27,970,500
Hazardous Waste Management Fund	1,304,800	1,744,300	1,734,600
Indirect Cost Recovery Fund	12,109,700	13,464,000	13,375,200
Permit Administration Fund	5,448,200	10,876,300	7,114,100
Recycling Fund	913,100	2,361,300	2,029,300
Safe Drinking Water Program Fund	0	1,800,000	1,800,000
Solid Waste Fee Fund	913,300	1,247,400	1,239,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	6,905,400	10,582,300	10,507,400
SUBTOTAL - Other Appropriated Funds	63,556,800	80,222,400	73,386,300
SUBTOTAL - Appropriated Funds	66,380,400	83,046,000	76,209,900
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	154,566,400

AGENCY DESCRIPTION — The Department of Environmental Quality (ADEQ) enforces air, water, and land quality standards. The department's Office of Air Quality issues permits to regulate industrial air pollution sources, regulates vehicle emissions, monitors and assesses the ambient air, and develops air quality improvement strategies. The Office of Waste Programs implements programs to minimize waste generation, identifies and corrects improper waste management practices, and oversees the clean up (remediation) of hazardous waste sites. The Office of Water Quality regulates drinking water and waste water systems, monitors and assesses waters of the state, and provides hydrologic analysis to support hazardous site remediation.

Operating Budget

The Baseline includes \$46,290,400 and 322 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
Air Quality Fund	\$5,361,400
Emergency Response Commission	132,800
Emissions Inspection Fund	5,451,000
Hazardous Waste Management Fund	1,734,600

Indirect Cost Recovery Fund	13,375,200
Permit Administration Fund	7,114,100
Recycling Fund	1,352,900
Solid Waste Fee Fund	1,239,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,507,400

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(299,200) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

Air Quality Fund	(20,500)
Emissions Inspection Fund	(39,600)
Hazardous Waste Management Fund	(9,700)
Indirect Cost Recovery Fund	(88,800)
Permit Administration Fund	(48,900)
Recycling Fund	(8,400)
Solid Waste Fee Fund	(8,400)
Water Quality Fee Fund	(74,900)

(Please see the Technical Budget Assumptions section.)

Emissions Control Contractor Payment

The Baseline 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 2018 Environment Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 308) continued 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 Baseline includes \$1,800,000 from the Safe Drinking Water Program Fund in FY 2019 for the Safe Drinking Water Program. This amount is unchanged from FY 2018.

The FY 2018 Environment BRB modified statute to redirect the first \$1,800,000 of Public Water System (PWS) tax revenue to the new appropriated Safe Drinking Water Program Fund. Prior to this change, these PWS monies were deposited into the Water Quality Assurance Revolving Fund. 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 Baseline includes \$7,000,000 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	2,100,000
Emissions Inspection Fund	1,400,000
Recycling Fund	676,400

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a net decrease of \$(6,536,900) in FY 2019 to remove one-time funding for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

Air Quality	100,000
Emissions Inspection Fund	(2,600,000)
Permit Administration Fund	(3,713,300)
Recycling Fund	(323,600)

The FY 2017 budget established \$7,000,000 as the ongoing appropriation for WQARF, and the Baseline adjusts FY 2019 spending to that level.

The FY 2018 Environment BRB included a legislative intent statement that the fund balances be evaluated to determine whether there are sufficient monies available to continue to fund WQARF funding in FY 2019 at similar levels as FY 2018.

Table 2 shows that the Air Quality Fund, Emissions Inspection Fund, and Recycling Fund have sufficient monies to continue funding in FY 2019 at the Baseline level, but the Permit Administration Fund has insufficient monies due to a structural deficit and smaller ending balance.

Fund	FY 2018 Approp.	FY 2019 Baseline	FY 2019 Ongoing Surplus*	FY 2019 Ending Balance
General Fund	\$2,823,600	\$2,823,600		
Air Quality Fund	2,000,000	2,100,000	445,700	11,591,300
VEI Fund	4,000,000	1,400,000	327,400	12,350,900
Permit Admin. Fund	3,713,300	0	(1,538,000)	2,691,700
Recycling Fund	<u>1,000,000</u>	<u>676,400</u>	<u>181,500</u>	<u>4,682,700</u>
TOTAL APPROP.	\$13,536,900	\$7,000,000		\$31,316,600
Non-Appropriated	<u>1,500,000</u>	<u>1,500,000</u>		
TOTAL FUNDS	\$15,036,900	\$8,500,000		

*The ongoing surplus represents ongoing revenue and ongoing spending at the FY 2019 Baseline funding levels for WQARF.

ADEQ also appears to have sufficient monies to continue to fund WQARF at \$15,036,900 in FY 2019 due to large ending balances. Another \$6,536,900 is needed beyond the Baseline funding to restore WQARF funding levels to the FY 2018 funding level of \$15,036,900. The structural surpluses are insufficient to provide this funding. However, the 4 funds used to fund WQARF in FY 2018 will have a total estimated FY 2019 ending cash balance of \$31,316,600, which could be used to fund WQARF at the FY 2018 funding level.

WQARF is funded in part from an annual \$15,000,000 transfer from the Corporate Income Tax (CIT), as stipulated in A.R.S. § 49-282. Funding for this program, therefore, does not appear in the General Appropriation Act. In addition, WQARF generates other revenue from various license and registration fees. A.R.S. § 49-282 directs the State Treasurer to adjust the \$15,000,000 CIT transfer so that, when combined with the WQARF fee-generated revenue, the program receives \$18,000,000 annually.

The FY 2018 Environment BRB continued to notwithstanding these statutory provisions and established in session law the FY 2018 appropriations. Additionally, the FY 2018 Environment BRB included a legislative intent statement that these amounts be supplemented by \$1,500,000 of non-appropriated monies directly deposited into WQARF, which consists of other revenue generated from various license and registration fees.

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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,375,200 in FY 2019 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,375,200 in FY 2019, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee.

All Permit Administration Fund monies received by the Department of Environmental Quality in excess of \$7,114,100 in FY 2019 are appropriated to the department. Before the expenditure of Permit Administration Fund monies in excess of \$7,114,100 in FY 2019, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote requiring the Department of Environmental Quality to submit a Safe Drinking Water Program expenditure plan for review by the Joint Legislative Budget Committee. The appropriations process will provide oversight in FY 2019.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank Revolving (UST) Fund in FY 2019 for department administrative expenses.
- As session law, continue 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.
- 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, reduce the General Fund appropriation to \$2,823,600 and appropriate \$2,100,000 from the Air Quality fund, \$1,400,000 from the Vehicle Emissions Inspection Fund and \$676,400 from the Recycling Fund for a total of \$7,000,000.
- As session law, continue to include a legislative intent statement that the WQARF appropriations are being supplemented by \$1,500,000 of non-appropriated monies directly deposited into WQARF, which consists of other revenue generated from various license and registration fees.
- As session law, continue to allow ADEQ to utilize the Water Quality Fee Fund (WQFF) in FY 2019 to help fund the Water Quality Monitoring Program.

Other Issues

Vehicle Emissions Inspection Fees

In 2016, the VEI Program generated more in fees than administration of the program, but that surplus has been eliminated from FY 2017 onward, as shown in *Table 3*.

Table 3

Emissions Inspection Fund

<u>Revenues</u>	<u>Actual FY 2017</u>	<u>Estimated FY 2018</u>	<u>Estimated FY 2019</u>
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
<u>Expenditures</u>			
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>1,400,000</u>
Total Expenditures	\$29,397,600	\$30,610,100	\$28,010,100
Total Balance	\$12,896,100	\$10,623,500	\$10,950,900

^{1/} Includes approximately \$5.5 million annually for ADEQ costs in the operating budget.

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.

Water Quality Monitoring

The FY 2018 Environmental BRB, as session law, allowed ADEQ to utilize the Water Quality Fee Fund (WQFF) to help fund the Water Quality Monitoring Program. Additional revenues from operator certification fees, which were established in FY 2017, allow WQFF to absorb this expense. WQFF 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.

ADEQ Web Portal Development

The FY 2018 budget included a transfer of \$3.2 million from the Underground Storage Tank Revolving Fund to the Arizona Department of Administration for Phase 4 of the ADEQ web portal, myDEQ, which will automate additional permitting and compliance processes that are currently conducted with paper. *(Please see the Department of Administration - Automation Projects Fund for details regarding this information technology project.)*

Thus far, the primary fund sources, the Emissions Inspection Fund and the Underground Storage Tank Revolving Fund, have been utilized due to surpluses and are not linked to the beneficiaries of the project.

The Emissions Inspection Fund is expected to have a structural balance of \$1.7 million and an ending balance of \$12.4 million in FY 2019, assuming no monies for this project are used from this fund in FY 2019.

As shown in *Table 4*, The Underground Storage Tank Revolving Fund is expected to have a structural shortfall of \$(5.9) million and an ending balance of \$56.7 million in FY 2019, assuming no monies for this project are used from this fund in FY 2019.

	Actual FY 2017	Estimate FY 2018	Estimate FY 2019
Beginning Balance	\$65,809,700	\$71,674,500	\$62,576,300
Revenues	33,597,500	31,433,600	31,433,600
Ongoing Expenditures	27,732,700	37,331,800	37,331,800
Fund Transfers*	0	3,200,000	0
Ending Balance	\$71,674,500	\$62,576,300	\$56,678,100
Structural Balance	\$ 5,864,800	(\$5,898,200)	(\$5,898,200)

*Does not include fund transfers in FY 2019.

Between FY 2014 and FY 2018, a total of \$20.0 million has been appropriated to automate 64 business processes within ADEQ. The 64 automated processes will allow customers to conduct permitting, billing, payment, and data submissions online.

In June 2017, ADEQ received favorable JLBC review of its FY 2018 expenditure plan for Phase 4 of the project. The JLBC gave a favorable review of ADEQ's expenditure plan to automate 14 of 64 transactions.

Pursuant to a FY 2015 General Appropriation Act footnote, in December 2017, ADEQ provided a quarterly update on its E-Licensing project. The vendor gave an overall favorable evaluation of ADEQ's progress.

If this project is funded again in FY 2019, the JLBC Staff recommends that the resources be appropriated directly to ADEQ rather than ADOA. This shift will align resources with the agency actually expending the funds for this project. In addition, the JLBC Staff recommends that before expending additional monies for the project, ADEQ shall submit an expenditure plan to JLBC for review if this project is funded.

ADEQ estimates this project will cost an additional \$19.5 million and take an additional 4 years to complete.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Air Quality Fund (EVA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: Monies received from the \$1.50 fee assessed on motor vehicle registration, as well as gifts, grants, donations, and legislative appropriations.		
Purpose of Fund: To pay the costs of air quality research, experiments, education, and programs conducted by or for the department. Also, to provide an annual \$400,000 transfer to the Department of Administration for state employee travel reduction programs. <i>(See individual agencies for further description.)</i> The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) transfers \$2,875,000 from the Air Quality Fund in FY 2017 for WQARF funding. The FY 2018 Environment BRB (Laws 2017, Chapter 308) transfers \$2,000,000 from the Air Quality Fund in FY 2018 for WQARF funding.		
Funds Expended	6,542,100	7,381,900
Funds Appropriated		
Arizona Department of Agriculture (Oxygenated Fuels Vapor Recovery)	1,434,400	1,434,400
Arizona Department of Transportation	161,700	161,700
Arizona Department of Administration (Bus Subsidy)	927,300	927,300
Year-End Fund Balance	8,500,000	9,045,700

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Donations Fund (EVA2449/A.R.S. § 49-104)		Non-Appropriated
<i>Source of Revenue:</i> Various donations, settlements, and consent decrees.		
<i>Purpose of Fund:</i> To administer the intent of the donation, settlement or decree.		
Funds Expended	3,100	4,400
Year-End Fund Balance	5,900	7,900
Emergency Response Fund (EVA3031/A.R.S. § 26-352)		Appropriated
<i>Source of Revenue:</i> The fund receives 10% of the department's Hazardous Waste Management Fund's revenues.		
<i>Purpose of Fund:</i> To develop and administer a hazardous materials emergency management program, equip local emergency planning committees for the development of hazardous materials emergency response teams, and assist local agencies in providing adequate response to emergency situations. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	112,600	132,800
Year-End Fund Balance	592,400	815,400
Emissions Inspection Fund (EVA2082/A.R.S. § 49-544)		Appropriated
<i>Source of Revenue:</i> Legislative appropriations, test fees, fleet certificate fees, private grants, donations, and federal grants.		
<i>Purpose of Fund:</i> To pay for enforcement of fleet inspections, exemptions, and certificates of waiver programs; to pay Emissions Inspection program contract and administrative charges, including station auditing, contractor training and certification, and motorist assistance; to pay for the state portion of catalytic converter program costs; and to pay for research studies of the feasibility and effectiveness of new emission control technologies. The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) transfers \$4,250,000 from the Emissions Inspection Fund in FY 2017 for WQARF funding. Chapter 120 also allows \$1,800,000 of Emissions Inspection Fund monies to be spent on the Safe Drinking Water Program in FY 2017. The FY 2018 Environment BRB (Laws 2017, Chapter 308) transfers \$4,000,000 from the Emissions Inspection Fund in FY 2018 for WQARF funding.		
Funds Expended	29,397,600	30,610,100
Year-End Fund Balance	12,896,100	10,623,500
Federal Funds (EVA2000/A.R.S. § 49-104)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants related to water quality management, Underground Storage Tank enforcement provisions, air pollution control, research projects, and other programs.		
<i>Purpose of Fund:</i> To be used as specified by federal law.		
Funds Expended	14,735,100	16,646,300
Year-End Fund Balance	0	0
Hazardous Waste Management Fund (EVA2178/A.R.S. § 49-927)		Appropriated
<i>Source of Revenue:</i> Legislative appropriations, hazardous waste treatment, storage, and disposal permit fees, and hazardous waste generation and transportation fees.		
<i>Purpose of Fund:</i> To pay educational, permitting, planning, and enforcement costs of the Hazardous Waste Program, and to provide administration and state matching funds for federal source reduction grants. A portion of the fund is transmitted to the Emergency Response Fund for staffing and equipping local emergency management agencies. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	1,304,800	1,744,300
Year-End Fund Balance	2,752,400	2,267,300
IGA & ISA Fund (EVA2500/A.R.S. § 49-104)		Non-Appropriated
<i>Source of Revenue:</i> Grants and intergovernmental agreements between state agencies and local governments.		
<i>Purpose of Fund:</i> To be used as specified in the grant or agreement.		
Funds Expended	5,937,100	7,453,800
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Indirect Cost Recovery Fund (EVA9000/A.R.S. § 49-115)		Appropriated
Source of Revenue: Monies are generated from assessments to the department's appropriated and non-appropriated funds, including federal grants.		
Purpose of Fund: To pay departmentwide administrative personnel and overhead costs that are not directly allocated to the budget of the contributing programs.		
Funds Expended	12,109,700	13,464,000
Year-End Fund Balance	2,996,600	2,117,600
Institutional & Engineering Control Fund (EVA2563/A.R.S. § 49-159)		Non-Appropriated
Source of Revenue: Application fees for department's assessment and verification of restricted, non-residential use of contaminated land, recovered costs for repair of engineering and institutional controls, grants, donations, and legislative appropriations.		
Purpose of Fund: To pay the department's cost of enforcing the use of engineering and institutional controls in environmental remediations on contaminated properties.		
Funds Expended	34,600	24,700
Year-End Fund Balance	63,700	56,500
Intergovernmental Agreement Fund (EVA2180/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements from various entities, including the Game and Fish Department and the Water Protection Commission.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Monitoring Assistance Fund (EVA2308/A.R.S. § 49-360)		Non-Appropriated
Source of Revenue: Fees from public water systems that participate in the Monitoring Assistance program.		
Purpose of Fund: To assist public water systems in complying with monitoring requirements under the federal Safe Drinking Water Act.		
Funds Expended	744,900	753,500
Year-End Fund Balance	1,109,600	1,228,200
Permit Administration Fund (EVA2328/A.R.S. § 49-455)		Appropriated
Source of Revenue: Permit fees and interest.		
Purpose of Fund: To develop and administer permit programs and to conduct inspections. The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) transfers \$3,713,300 from the Permit Administration Fund in FY 2018 for WQARF funding.		
Funds Expended	5,448,200	10,876,300
Year-End Fund Balance	9,481,000	4,229,700
Recycling Fund (EVA2289/A.R.S. § 49-837)		Appropriated
Source of Revenue: Landfill disposal (tipping) fees and legislative appropriations.		
Purpose of Fund: For grants to local governments and others developing recycling markets and programs; for public information and assistance on source reduction and recycling; and for revenue collection and fund administration. The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) transfers \$1,000,000 from the Recycling Fund in FY 2018 for WQARF funding.		
Funds Expended	913,100	2,361,300
Year-End Fund Balance	3,966,900	3,824,800
Safe Drinking Water Program Fund (EVA4150/A.R.S. § 49-360)		Appropriated
Source of Revenue: The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) modifies statute to redirect the first \$1,800,000 of Public Water System (PWS) tax revenue to the newly-created Safe Drinking Water Program Fund. Prior to this change, these PWS monies were deposited into the Water Quality Assurance Revolving Fund.		
Purpose of Fund: To fund the Safe Drinking Water Program.		
Funds Expended	0	1,800,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Solid Waste Fee Fund (EVA3110/A.R.S. § 49-881)		Appropriated
<i>Source of Revenue:</i> Fees, donations, and legislative appropriations.		
<i>Purpose of Fund:</i> To pay solid waste program costs, including waste tire removal expenses, special waste facility staff education, special waste management compliance monitoring, and used oil handling education and enforcement.		
Funds Expended	913,300	1,247,400
Year-End Fund Balance	1,490,700	1,306,500
Specific Site Judgment Fund (EVA3006/A.R.S. § 49-104)		Non-Appropriated
<i>Source of Revenue:</i> Fines, forfeitures, and penalties paid by parties responsible for site contamination.		
<i>Purpose of Fund:</i> For administration of court settlements, judgments, or consent decrees.		
Funds Expended	36,700	40,000
Year-End Fund Balance	668,000	628,100
Underground Storage Tank Revolving (UST Summary) (EVA2271/A.R.S. § 49-1015A)		Partially-Appropriated
<i>Source of Revenue:</i> 1¢ per gallon excise tax, which expires January 1, 2024.		
<i>Purpose of Fund:</i> To provide partial coverage for permanent closures, leak prevention, and corrective action costs related to leaking underground storage tanks incurred by the department, owners, operators, or political subdivisions. As session law, the FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) permits DEQ to transfer up to \$6,531,000 from the UST Revolving Fund in FY 2018 for the department's administrative expenses. The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) transfers \$3,200,000 from the UST Revolving Fund to the Automation Projects Fund for the department's e-licensing project.		
Balance Forward	65,809,700	71,674,500
Revenue	33,597,500	31,433,600
Funds Available	99,407,200	103,108,100
Appropriated Funds Expended	0	22,000
Non-Appropriated Funds Expended	27,732,700	40,509,800
Year-End Fund Balance	71,674,500	62,576,300
Voluntary Remediation Fund (EVA2564/A.R.S. § 49-187)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations, program fees, cost reimbursements, gifts, grants, and donations.		
<i>Purpose of Fund:</i> To pay the department's oversight costs of voluntary clean-ups of contaminated properties, including application, monitoring, and enforcement activities.		
Funds Expended	312,000	315,400
Year-End Fund Balance	264,400	125,000
Voluntary Vehicle Repair & Retrofit Program Fund (EVA2365/A.R.S. § 49-474.03)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations, a \$10 fee on diesel vehicle registrations, gifts, grants and donations.		
<i>Purpose of Fund:</i> To provide monies for local programs intended to repair or retrofit vehicles that fail emissions tests.		
Funds Expended	0	1,005,000
Year-End Fund Balance	3,410,500	3,435,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
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Water Quality Assurance Revolving Fund (EVA2221/A.R.S. § 49-282)	Non-Appropriated	
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Source of Revenue: Fees and taxes related to municipal water use, pesticides, fertilizers, hazardous waste, and groundwater withdrawal. As required by A.R.S. § 49-282, \$15,000,000 is to be transferred to the Water Quality Assurance Revolving Fund (WQARF) from the Corporate Income Tax. The \$15,000,000 is adjusted at the close of the fiscal year so that when combined with other revenues the fund receives \$18,000,000 annually. This statutory transfer has been suspended since FY 2011. The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) reduced this transfer to \$2,823,600 in FY 2018, but utilizes balances of \$4,000,000 from the Emissions Inspection Fund, \$2,000,000 from the Air Quality Fund, \$3,713,300 from the Permit Administration Fund, and \$1,000,000 from the Recycling Fund to increase total appropriated WQARF funding to \$13,536,900. These amounts are supplemented by approximately \$1,500,000 of non-appropriated monies directly deposited into WQARF, which consists of other revenue generated from various license and registration fees.

Purpose of Fund: For the operation of the WQARF Priority Site Remediation Program. Expenditures include administration, legal support, identification of responsible polluters, community involvement, and contract costs for the clean-up of sites for which no responsible party can be found. Statute permits a transfer to the Department of Water Resources for well inspection and data management and a transfer to the Department of Health Services for a risk assessment. These transfers are not counted to avoid double counting. Although this fund is not appropriated, A.R.S. § 49-282 requires the Appropriations Committees to review the annual budget for WQARF.

Funds Expended	11,961,800	15,965,900
Year-End Fund Balance	6,252,300	3,981,300

Water Quality Fee Fund (EVA4100/A.R.S. § 49-210)	Appropriated	
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Source of Revenue: Legislative appropriations and fees received from several water quality protection programs.

Purpose of Fund: To pay the costs of aquifer protection permit registration, dry well registration, technical review, inspections, and issuance of aquifer protection permits. As session law, the FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) allows DEQ to utilize the Water Quality Fee Fund to help fund the Water Quality Monitoring Program.

Funds Expended	6,905,400	10,582,300
Year-End Fund Balance	5,759,700	1,472,900

Governor's Office of Equal Opportunity

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	48,100
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	189,100
FUND SOURCES			
General Fund	187,000	191,900	189,100
SUBTOTAL - Appropriated Funds	187,000	191,900	189,100
TOTAL - ALL SOURCES	187,000	191,900	189,100

AGENCY DESCRIPTION — The agency monitors equal opportunity plans submitted annually by each state agency and assists agencies in equal employment opportunity training and evaluation.

Operating Budget

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The Baseline includes \$189,100 and 4 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,800) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budgets Assumption section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Equal Employment and Economic Development Fund (AFA2000/Executive Order: 93-20)		Non-Appropriated
Source of Revenue: Federal Funds received by the State of Arizona under the provisions of the Wagner-Peyser Act, the Workforce Investment Act, and Public Law 105-220.		
Purpose of Fund: To establish effective communication links between government agencies and local communities to address areas of employment under-utilization. To conduct research to improve, expand, or integrate state agencies' equal opportunity programs.		
Funds Expended	0	0
Year-End Fund Balance	0	0

State Board of Equalization

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	76,100
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	228,900
Equipment	0	20,000	20,000
AGENCY TOTAL	547,900	646,400	643,000
FUND SOURCES			
General Fund	547,900	646,400	643,000
SUBTOTAL - Appropriated Funds	547,900	646,400	643,000
TOTAL - ALL SOURCES	547,900	646,400	643,000

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 Baseline includes \$643,000 and 7 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(3,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

Board of Executive Clemency

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	405,100	519,200	519,200
Employee Related Expenditures	140,700	188,300	177,400
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	200,000
Equipment	10,300	10,000	10,000
AGENCY TOTAL	735,100	963,500	952,600
FUND SOURCES			
General Fund	735,100	963,500	952,600
SUBTOTAL - Appropriated Funds	735,100	963,500	952,600
Other Non-Appropriated Funds	55,400	41,000	41,000
TOTAL - ALL SOURCES	790,500	1,004,500	993,600

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 Baseline includes \$952,600 and 14 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(10,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

The Board of Executive Clemency shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before November 1, 2018 on the total number and types of cases the board reviewed in FY 2018.

Other Issues

Caseload Data

Pursuant to a footnote in the FY 2018 General Appropriation Act, the board is required to submit a report on its FY 2017 caseload by November 1, 2017. 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.
- 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.

- Reprive (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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA and ISA Fund (PPA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies from intergovernmental and interagency service agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	55,400	41,000
Year-End Fund Balance	0	0

Arizona Exposition and State Fair Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.0	184.0	184.0
Personal Services	3,699,900	3,845,800	3,845,800
Employee Related Expenditures	974,200	1,018,600	978,600
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	12,113,300
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Exposition and State Fair Fund	11,665,800	12,153,300	12,113,300
SUBTOTAL - Other Appropriated Funds	11,665,800	12,153,300	12,113,300
SUBTOTAL - Appropriated Funds	11,665,800	12,153,300	12,113,300
TOTAL - ALL SOURCES	11,665,800	12,153,300	12,113,300

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

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The Baseline includes \$12,113,300 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:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(40,000) from the Arizona Exposition and State Fair Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the *Technical Budget Assumptions Section*.)

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Exposition and State Fair Fund (CLA4001/A.R.S. § 3-1005)		Appropriated
Source of Revenue: Receipts and lease revenues from fairground facilities, most of which are associated with the State Fair.		
Purpose of Fund: For operating costs of the State Fair.		
Funds Expended	11,665,800	12,153,300
Year-End Fund Balance	5,221,600	6,427,500

Department of Financial Institutions

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	69.1	69.1	69.1
Personal Services	2,417,700	2,787,600	2,787,600
Employee Related Expenditures	907,200	1,105,400	1,041,700
Professional and Outside Services	344,100	150,800	150,800
Travel - In State	4,300	6,000	6,000
Travel - Out of State	1,600	3,000	3,000
Other Operating Expenditures	535,100	566,000	566,000
Equipment	128,800	126,600	120,600
OPERATING SUBTOTAL	4,338,800	4,745,400	4,675,700
SPECIAL LINE ITEMS			
Real Estate Appraisal	537,700	682,400	675,000
AGENCY TOTAL	4,876,500	5,427,800	5,350,700
FUND SOURCES			
General Fund	2,911,300	2,201,000	2,153,200
<u>Other Appropriated Funds</u>			
Board of Appraisal Fund	537,700	0	0
Financial Services Fund	1,427,500	3,226,800	3,197,500
SUBTOTAL - Other Appropriated Funds	1,965,200	3,226,800	3,197,500
SUBTOTAL - Appropriated Funds	4,876,500	5,427,800	5,350,700
Other Non-Appropriated Funds	1,224,800	1,334,800	889,800
TOTAL - ALL SOURCES	6,101,300	6,762,600	6,240,500

AGENCY DESCRIPTION — The department regulates state-chartered financial entities. The regulated entities include money transmitters, motor vehicle dealers, holding companies, trust companies, sales finance companies, collection agencies, escrow agents, debt management companies, consumer lenders, mortgage bankers, mortgage brokers, premium finance companies, credit unions and banks. The department also regulates real estate appraisal entities.

Operating Budget

The Baseline includes \$4,675,700 and 60.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$1,478,200
Financial Services Fund	3,197,500

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(6,000) from the Financial Services Fund in FY 2019 for the elimination of one-time equipment.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(63,700) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustments. This amount consists of:

General Fund	(40,400)
Financial Services Fund	(23,300)

(Please see the Technical Budget Assumptions section.)

Real Estate Appraisal

The Baseline includes \$675,000 and 9 FTE Positions from the General Fund in FY 2019 for Real Estate Appraisal. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 19) merged the State Board of Appraisal into the Department of Financial Institutions and gives the authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions.

Laws 2017, Chapter 334 made conforming changes to various statutes regarding the department's real estate appraisal duties as a result of the agency consolidation. Among these changes was the elimination of the Board of Appraisal Fund. Licensing fee revenues will now be deposited in the General Fund rather than in the Board of Appraisal Fund. These new General Fund deposits will offset the new General Fund appropriation for the Real Estate Appraisal Division. The new appropriated total more closely matches incoming appraisal fee revenue received by the department.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The Department of Financial Institutions shall assess and set fees to ensure that monies deposited in the state General Fund will equal or exceed the department's expenditure from the state General Fund.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to allow the department to use the Financial Services Fund for general operating expenditures.
- As session law, continue to extend the spending authority of \$850,000 from the Receivership Revolving Fund for an electronic licensing system through FY 2019.

Other Issues

Licensing Replacement System

The FY 2014 Revenue BRB (Laws 2013, 1st Special Session, Chapter 9) granted the Department of Financial Institutions the authority to spend \$850,000 from the Receivership Revolving Fund to purchase an electronic licensing replacement system. The project was initially expected to be completed by the end of FY 2015. Subsequent budgets extended the availability of these funds to the end of FY 2018.

Due to project delays, the expected completion date has been moved to FY 2019. The Baseline would extend the spending authority to the end of FY 2019. Through November 2017, expenditures from the Receivership Revolving Fund for the project totaled \$624,000.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Appraisal Subcommittee Fund (BDA2004/A.R.S. § 32-3607)		Non-Appropriated
Source of Revenue: Established by Laws 2017, Chapter 334, monies received from National Registry fee levied on state-licensed appraisers and appraisal management companies.		
Purpose of Fund: To support the National Registry database of state-certified appraisers. The fees are collected by the department and remitted to the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Appraisal Fund (BDA2270/A.R.S. § 32-3608 [Repealed])		Appropriated
Source of Revenue: Monies collected by the Department of Financial Institutions from the examination and licensing of real estate appraisers and tax agents. The department retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate real estate appraisers and property tax agents, and for board administration. Laws 2017, Chapter 334 eliminated the Board of Appraisal Fund and transferred the remaining balance to the General Fund.		
Funds Expended	537,700	0
Year-End Fund Balance*	479,800	(286,700)
Financial Services Fund (BDA1998/A.R.S. § 6-991.21)		Appropriated
Source of Revenue: Loan originator licensing and renewal fees. Similar fees are also deposited in the Mortgage Recovery Fund.		
Purpose of Fund: To supervise and regulate loan originators. The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) allows the department to use this fund for general operating expenditures in FY 2018.		
Funds Expended	1,427,500	3,226,800
Year-End Fund Balance	11,879,100	12,624,800
IGA and ISA Fund (BDA2500/A.R.S. § 6-1241)		Non-Appropriated
Source of Revenue: Monies received through Intergovernmental Agreements with the Attorney General's Office.		
Purpose of Fund: To reimburse the department for expenses related to the examination of money transmitting organizations. The banking examiners work in cooperation with the Attorney General's Office to provide information leading to the criminal conviction of fraudulent money transmitting organizations.		
Funds Expended	1,100	0
Year-End Fund Balance	0	0
Mortgage Recovery Fund (BDA1997/A.R.S. § 6-991.09)		Non-Appropriated
Source of Revenue: Licensing and renewal fees paid by licensed loan originators. Similar fees also are deposited in the Financial Services Fund.		
Purpose of Fund: To benefit any person aggrieved by any act, representation, transaction or conduct of a licensed loan originator that violates statute or rule.		
Funds Expended	0	0
Year-End Fund Balance	2,397,000	2,499,000
Receivership Revolving Fund (BDA3023/A.R.S. § 6-135.01)		Non-Appropriated
Source of Revenue: Revenue generated from the sale of assets of firms under receivership and transfers from the department's Revolving Fund.		
Purpose of Fund: Provide funding for the administration of receiverships. The FY 2018 Revenue Budget Reconciliation Bill (Laws 2017, Chapter 312) continues to allow the department to use monies from the fund in FY 2018 for an electronic licensing system. Total expenditures on the licensing system in FY 2014 through FY 2018 may not exceed \$850,000.		
Funds Expended	458,700	475,000
Year-End Fund Balance	2,154,400	2,136,400
Revolving Fund (BDA2126/A.R.S. § 6-135)		Non-Appropriated
Source of Revenue: Investigative costs, attorney fees, or civil penalties recovered as the result of an enforcement action brought by the department or the Attorney General for violations of state banking laws.		
Purpose of Fund: To support investigative and enforcement activities conducted by the department and the Attorney General. Year-end unencumbered fund balances in excess of \$200,000 are transferred to the department's Receivership Revolving Fund. Any excess balances are transferred at the beginning of the next fiscal year.		
Funds Expended	765,000	859,800
Year-End Fund Balance	166,600	200,000

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

Arizona Department of Forestry and Fire Management

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	67.0	88.0	88.0
Personal Services	1,813,700	1,915,600	1,915,600
Employee Related Expenditures	703,200	738,500	695,800
Professional and Outside Services	54,600	54,600	54,600
Travel - In State	16,100	16,100	16,100
Travel - Out of State	12,800	12,800	12,800
Other Operating Expenditures	284,400	419,900	280,000
Equipment	9,500	9,500	9,500
OPERATING SUBTOTAL	2,894,300	3,167,000	2,984,400
SPECIAL LINE ITEMS			
Environmental County Grants	250,000	250,000	250,000
Fire Suppression	4,302,500	4,065,000	4,065,000
Hazardous Vegetation Removal	1,248,500	1,350,000	1,350,000
Inmate Firefighting Crews	605,200	699,100	686,200
Post-Release Firefighting Crews	0	1,465,100	1,000,000
State Fire Marshal	670,000	753,200	742,600
State Fire School	169,900	173,100	172,100
AGENCY TOTAL	10,140,400	11,922,500	11,250,300
FUND SOURCES			
General Fund	10,140,400	11,922,500	11,250,300
SUBTOTAL - Appropriated Funds	10,140,400	11,922,500	11,250,300
Other Non-Appropriated Funds	58,949,300	39,234,800	39,234,800
TOTAL - ALL SOURCES	69,089,700	51,157,300	50,485,100

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 Baseline includes \$2,984,400 and 43 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove One-Time Equipment

The Baseline includes a decrease of \$(139,900) from the General Fund in FY 2019 for the elimination of one-time equipment.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(42,700) from the General Fund in FY 2019 for the removal of a one-time FY

2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* section.)

Environmental County Grants

The Baseline 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.

The department plans to support the following projects in FY 2018:

- \$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.
- \$12,500 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.
- \$25,000 for *Emerging Issues* to develop and implement effective planning and execution strategies for emerging issues.

Fire Suppression

The Baseline includes \$4,065,000 from the General Fund in FY 2019 for Fire Suppression. This amount is unchanged from FY 2018.

These monies are used for fire suppression on state trust land and rural private land. A.R.S. § 37-623.02 provides an annual appropriation of up to \$3,000,000 from the General Fund for fire suppression. Because this authorization is in permanent statute, \$3,000,000 of the \$4,065,000 is not included in the General Appropriation Act.

Hazardous Vegetation Removal

The Baseline includes \$1,350,000 from the General Fund in FY 2019 for a Hazardous Vegetation Removal program. This amount is unchanged from FY 2018.

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 Baseline includes \$686,200 and 13 FTE Positions from the General Fund in FY 2019 for Inmate Firefighting Crews. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(12,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$1,000,000 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 Baseline includes a decrease of \$(465,100) from the General Fund in FY 2019 for the elimination of one-time equipment.

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 will allow program participants to work towards completing their wildland firefighting certification following release from Department of Corrections custody.

State Fire Marshal

The Baseline includes \$742,600 and 11 FTE Positions from the General Fund in FY 2019 for the State Fire Marshal. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(10,600) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$172,100 and 1 FTE Position from the General Fund in FY 2019 for the State Fire School. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 \$72,100 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arson Detection Reward Fund (FFM2169/A.R.S. § 37-1387)		Non-Appropriated
Source of Revenue: Donations, court imposed fines, and monies from forfeiture of bail posted for arson convictions.		
Purpose of Fund: To provide rewards for information leading to convictions of arson cases. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Forestry and Fire Management by Laws 2016, Chapter 128.		
Funds Expended	0	0
Year-End Fund Balance	110,700	110,700
Cooperative Forestry Fund (FFM2232/A.R.S. § 37-1306)		Non-Appropriated
Source of Revenue: Legislative appropriations, reimbursements from organizations, the public, other levels of government, and state agencies.		
Purpose of Fund: To fund the State Forester's activities, including forestry assistance and wild land fire prevention and suppression on state lands.		
Funds Expended	8,180,500	7,991,500
Year-End Fund Balance	1,985,200	1,222,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Fire Suppression Revolving Fund (FFM2360/A.R.S. § 37-1305)		Non-Appropriated
Source of Revenue: General Fund appropriations, monies authorized by the Governor's Emergency Council and the Wild Land Fire Emergency Council, civil penalties related to the use of fireworks on state lands and other monies. If the unobligated balance of the fund exceeds \$2,000,000 at the end of any calendar year, the excess shall be transferred to the General Fund. General Fund appropriation expenditures are not displayed to avoid double counting of appropriations.		
Purpose of Fund: To cover the costs of fighting fires on public and private lands.		
Funds Expended	50,751,900	31,243,300
Year-End Fund Balance	205,000	1,700
IGA and ISA Fund (FFM2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies transferred from the Department of Fire, Building, and Life Safety to the State Forester as part of the agency consolidation per Laws 2016, Chapter 128.		
Purpose of Fund: This fund was used to pay rent for office space shared by the Department of Fire, Building, and Life Safety and the State Forester. Laws 2016, Chapter 128 consolidated the Department of Fire, Building and Life Safety into the Office of the State Forester, creating the Department of Forestry and Fire Management.		
Funds Expended	16,900	0
Year-End Fund Balance	42,900	42,900
Trampoline Court Safety Fund (FFM2578/A.R.S. § 37-1422)		Non-Appropriated
Source of Revenue: Fees charged to owners of trampoline courts.		
Purpose of Fund: To implement and maintain the registry of trampoline courts operating in Arizona. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Forestry and Fire Management by Laws 2016, Chapter 128.		
Funds Expended	0	0
Year-End Fund Balance	4,600	4,600

State Board of Funeral Directors and Embalmers

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	62,800
Professional and Outside Services	25,000	25,000	25,000
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	61,400
AGENCY TOTAL	362,300	378,200	373,300

FUND SOURCES

Other Appropriated Funds

Board of Funeral Directors' and Embalmers' Fund	362,300	378,200	373,300
SUBTOTAL - Other Appropriated Funds	362,300	378,200	373,300
SUBTOTAL - Appropriated Funds	362,300	378,200	373,300
TOTAL - ALL SOURCES	362,300	378,200	373,300

AGENCY DESCRIPTION — The board licenses, registers, and regulates embalmers, prearranged funeral salespersons, crematories, and funeral homes. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The Baseline includes \$373,300 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 Health Insurance Adjustment

The Baseline includes a decrease of \$(4,900) from the Board of Funeral Directors' and Embalmers' Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Funeral Directors' and Embalmers' Fund (FDA2026/A.R.S. § 32-1308)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of funeral directors and embalmers. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate funeral directors and embalmers, and for board administration.		
Funds Expended	362,300	378,200
Year-End Fund Balance	486,600	518,800

Arizona Game and Fish Department

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	12,645,900
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	38,430,300
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
Watercraft Safety Equipment	0	701,000	0
AGENCY TOTAL	36,708,600	44,309,200	42,488,300
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	36,314,400
Game, Non-Game, Fish and Endangered Species Fund	111,300	346,800	345,800
Watercraft Licensing Fund	4,946,700	5,834,400	4,810,700
Wildlife Endowment Fund	0	16,200	16,200
SUBTOTAL - Other Appropriated Funds	36,708,600	44,309,200	42,488,300
SUBTOTAL - Appropriated Funds	36,708,600	44,309,200	42,488,300
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	118,294,500

AGENCY DESCRIPTION — The Arizona Game and Fish Department (AGFD) manages Arizona wildlife populations through the operation of hunting and fishing license programs, enforcement actions for the unlawful taking of game, and wildlife habitat protection and development. A 5-member commission appointed by the Governor oversees department operations.

Operating Budget

The Baseline includes \$38,430,300 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	33,256,400
Game, Non-Game, Fish and Endangered Species Fund	345,800
Watercraft Licensing Fund	3,810,700
Wildlife Endowment Fund	16,200

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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 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 Baseline 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(349,200) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

Game and Fish Fund	(310,500)
Game, Non-Game, Fish and Endangered Species Fund	(1,000)
Watercraft Licensing Fund	(37,700)

(Please see the Technical Budget Assumptions section.)

Pittman-Robertson/Dingell-Johnson Act

The Baseline 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 Baseline 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.

Game and Fish Trucks

The Baseline 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 Baseline 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 Baseline includes \$1,000,000 from the Watercraft Licensing Fund in FY 2019 for Watercraft Grants. This amount is unchanged from FY 2018.

The program awards grants through a competitive grant process to Arizona watercraft enforcement agencies. These grants are used by agencies to expand Operation Under the Influence enforcement efforts, such as purchasing equipment, paying officers' overtime, or funding prevention and education programs.

Watercraft Safety Equipment

The Baseline 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Big Game Permit Fund (GFA3712/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: License fees for hunting permits.		
Purpose of Fund: Holding account for license fees from hunters who are unable to obtain big game hunting permits through the lottery system.		
Funds Expended	0	0
Year-End Fund Balance	1,654,900	1,666,000
Capital Improvement Fund (GFA2203/A.R.S. § 17-292)		Appropriated
Source of Revenue: Transfers from the Conservation Development Fund.		
Purpose of Fund: To acquire, construct, improve and renovate department facilities.		
Funds Expended	1,001,200	1,001,200
Year-End Fund Balance	927,500	927,500
Conservation Development Fund (GFA2062/A.R.S. § 17-282)		Non-Appropriated
Source of Revenue: A surcharge on hunting, fishing and combination licenses, and trout stamp sales.		
Purpose of Fund: To make debt service payments if the department issues bonds for the purpose of constructing, maintaining, and renovating department facilities.		
Funds Expended	2,156,500	1,007,700
Year-End Fund Balance	1,076,900	1,277,200
Federal Funds (GFA2000/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To be used as specified by the federal grants. The fund also generates interest owed to the federal government that is paid on a quarterly basis.		
Funds Expended	2,200	0
Year-End Fund Balance	4,500	4,500
Federal Grants - American Recovery and Reinvestment Act (ARRA) (GFA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department to fulfill Federal contracts.		
Funds Expended	0	0
Year-End Fund Balance	17,500	17,500
Federal Revolving Fund (GFA2028/A.R.S. § 17-406)		Non-Appropriated
Source of Revenue: Funds received from the federal government for deposit and appropriated state matching money.		
Purpose of Fund: For projects approved in compliance with the provisions of the restoration acts known as the Pittman-Robertson Act and the Dingell-Johnson/Wallop-Breaux Act and other wildlife projects in which the cost may be partially or wholly reimbursed from Federal Funds.		
Funds Expended	47,696,400	44,547,400
Year-End Fund Balance	476,400	836,700
Firearms Safety and Ranges Fund (GFA2442/A.R.S. § 17-273)		Non-Appropriated
Source of Revenue: Annual appropriation of \$50,000 from retail sales taxes deposited to the General Fund and transferred to the fund pursuant to A.R.S. § 42-5029D4, revenues derived from the sale or lease of real property owned by the commission, and interest earnings as provided by A.R.S. § 17-273.		
Purpose of Fund: To award grants to assist existing government-owned shooting ranges in adapting to changes in the use of adjacent properties, including noise abatement, safety enhancement, range realignment, acquisition of land for buffer zones, or acquisition of State Trust Lands for locating or relocating government-owned shooting ranges.		
Funds Expended	35,800	35,800
Year-End Fund Balance	62,500	75,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Game and Fish Fund (GFA2027/A.R.S. § 17-261)		Appropriated
Source of Revenue: Monies received from sales of licenses and tags for hunting, trapping and fishing, and other related fees and penalties.		
Purpose of Fund: To provide funding for general operation of the Game and Fish Department and to match federal grants for fish and wildlife restoration.		
Funds Expended	30,649,400	37,110,600
Year-End Fund Balance	20,782,500	11,248,300
Game and Fish Federal Duck Stamps Fund (GFA3711/A.R.S. § 35-131)		Non-Appropriated
Source of Revenue: Sale of federal duck stamps, a required annual purchase for waterfowl hunters.		
Purpose of Fund: To remit proceeds to the federal government on an annual basis.		
Funds Expended	0	0
Year-End Fund Balance	95,600	69,500
Game and Fish In-Lieu Fee Program Restoration Endowment Trust Fund (GFA3167/A.R.S. § 17-265)		Non-Appropriated
Source of Revenue: Compensatory mitigation credit monies from permittee purchases; monies received from United States Army Corps of Engineers (USACE) for resolutions of federal enforcement actions on unauthorized activities not involving department staff.		
Purpose of Fund: To fulfill department duties as an In-Lieu Fee sponsor pursuant to the federal Clean Water Act. Permittees that cannot avoid environmental impact to wetlands and streams must purchase compensatory mitigation credits, the proceeds of which are used by the Game and Fish Department for environmental restoration projects authorized by the USACE.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Game and Fish Publications Revolving Fund (GFA4007/A.R.S. § 17-269)		Non-Appropriated
Source of Revenue: Sales of agency publications, including Wildlife Views magazine and various field guides.		
Purpose of Fund: To finance the production of agency publications. Amounts in excess of \$80,000 revert to the Game and Fish Fund at fiscal year end. However, in some circumstances, the balance forward may appear to exceed \$80,000 without reversion due to unexpended obligations at fiscal year end that the agency counts against the ending balance.		
Funds Expended	168,600	168,600
Year-End Fund Balance	73,800	81,400
Game and Fish Special Stamp Collection Fund - For CA (GFA3709/A.R.S. § 17-343)		Non-Appropriated
Source of Revenue: Handling of licenses and special use permits on waters shared with California.		
Purpose of Fund: To remit proceeds to California on an annual basis pursuant to an agreement between AZGFD and the California Game and Fish Commission.		
Funds Expended	0	0
Year-End Fund Balance	105,700	105,700
Game and Fish Stamps Fund (GFA3708/A.R.S. § 17-338)		Non-Appropriated
Source of Revenue: Sale of licenses and special use permits on shared waters.		
Purpose of Fund: To remit proceeds to Nevada on an annual basis pursuant to an agreement between the Arizona Game and Fish Department and the State of Nevada.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Game and Fish Trust Fund (GFA3111/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: Collections from local governments for the Urban Fishing program, transfers from the state Risk Management Fund, proceeds from the charitable auction of bighorn sheep tags, and private donations from private contributors.		
Purpose of Fund: This fund fulfills the wildlife-related requests of private contributors. Most donations include a request to protect or research a particular form of wildlife.		
Funds Expended	2,904,400	2,886,500
Year-End Fund Balance	10,801,400	12,710,400
Game, Non-Game, Fish and Endangered Species Fund (GFA2127/A.R.S. § 17-268)		Appropriated
Source of Revenue: Contributions from taxpayers who select the "check-off" option for non-game wildlife on their Arizona state income tax forms and interest earned.		
Purpose of Fund: To provide funding for research on non-game wildlife, endangered species, and related habitat for use in the department's management plan.		
Funds Expended	111,300	346,800
Year-End Fund Balance	197,700	197,700
Heritage Fund (GFA2295/A.R.S. § 17-297)		Non-Appropriated
Source of Revenue: Annual transfer from the Lottery Fund of up to \$10,000,000 and interest earnings.		
Purpose of Fund: To protect areas containing sensitive or endangered biological features and wildlife. At least 24% of the fund, but no more than 60%, may be used for capital projects and acquisitions. Interest earnings are to be used for administration. The Game and Fish Commission may spend its fund monies allocated for capital projects and acquisitions with the following conditions: 1) No more than 20% may be used for purposes of operation and maintenance of acquired property and 2) At least 20% must be used for acquisition of property.		
Funds Expended	8,312,300	9,597,100
Year-End Fund Balance	16,966,000	17,491,400
IGA and ISA Fund (GFA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency service agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	0	0
Year-End Fund Balance	2,000	2,000
Indirect Cost Recovery Fund (GFA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: This fund consists of revenue generated by billing federal aid for indirect costs.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	5,568,000	6,836,500
Year-End Fund Balance	4,086,200	4,319,700
Kaibab Co-op Fund (GFA3714/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: Clearing account. In accordance with the Federal Sikes Act, 16 U.S.C. 670 et seq., monies are generated from the sale of a Kaibab habitat management stamp, which is required to take deer on the Kaibab Plateau.		
Purpose of Fund: To provide funding for habitat management.		
Funds Expended	0	0
Year-End Fund Balance	115,400	115,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Land and Water Conservation and Recreation Development Fund (GFA2036/A.R.S. § 17-267)		Appropriated
Source of Revenue: Fishing license fees.		
Purpose of Fund: To pay for recreation benefits in conjunction with fish and wildlife restoration projects; purchase engineering services, land, rights of way, water rights, and construction; and matching funds for Pittman-Robertson and Dingell-Johnson federal aid and other available funds from federal, state, county or municipal sources.		
Funds Expended	0	0
Year-End Fund Balance	31,800	31,800
Livestock Compensation Fund (GFA3103/A.R.S. § 17-493)		Non-Appropriated
Source of Revenue: Consists of federal monies, legislative appropriations and donations.		
Purpose of Fund: To compensate livestock operators, landowners and lessees for wolf depredation on livestock and for participating in a pay-for-presence program.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Off-Highway Vehicle Recreation Fund (GFA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: The Arizona Game and Fish Department receives 35% of off-highway vehicle user fees and annual collections from the Motor Vehicle Fuel Tax transfer to the State Parks Board, which is equivalent to 0.55% of the total license taxes on motor vehicle fuel.		
Purpose of Fund: To plan, administer, and enforce off-highway vehicle recreation, and to develop facilities consistent with the off-highway vehicle plan. Sixty percent of the monies collected are to be used by the Arizona State Parks Board for planning, administration, and facilities development and 5% are to be used by the State Land Department for costs associated with off-highway vehicle use for land within its jurisdiction. The remainder is transferred to the Arizona Game and Fish Department for informational and educational programs on off-highway vehicle recreation and law enforcement activities.		
Funds Expended	1,838,300	1,902,000
Year-End Fund Balance	606,900	479,900
Watercraft Licensing Fund (GFA2079/A.R.S. § 5-323)		Appropriated
Source of Revenue: Registration fees for the licensing and numbering of watercraft, license taxes, and penalty assessments.		
Purpose of Fund: To administer and enforce registration of watercraft and boating safety laws, and to provide any information and education programs relating to boating and boating safety.		
Funds Expended	4,946,700	5,834,400
Year-End Fund Balance	5,780,400	4,461,400
Wildlife Conservation Fund (GFA2497/A.R.S. § 17-299)		Non-Appropriated
Source of Revenue: Monies received from tribal gaming in accordance with A.R.S. § 5-601.02.		
Purpose of Fund: To conserve, enhance, and restore Arizona's diverse wildlife resources and habitats, and may include the acquisition of real property.		
Funds Expended	6,200,800	7,828,800
Year-End Fund Balance	7,875,900	6,547,100
Wildlife Conservation Enterprise Fund (GFA2029/A.R.S. 28-6302)		Non-Appropriated
Source of Revenue: External fee for service contracts and purchase orders.		
Purpose of Fund: For research projects and goals specified by contractual agreements.		
Funds Expended	1,007,200	735,000
Year-End Fund Balance	196,800	519,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Wildlife Endowment Fund (GFA2279/A.R.S. § 17-271)		Appropriated
Source of Revenue: Sales of benefactor and lifetime hunting and fishing licenses, gifts, grants, contributions, and interest and investment income.		
Purpose of Fund: To provide funding for wildlife conservation and management.		
Funds Expended	0	16,200
Year-End Fund Balance	2,643,300	2,822,300
Wildlife Habitat Restoration and Enhancement Fund (GFA2536/A.R.S. § 17-471)		Appropriated
Source of Revenue: Legislative appropriations. The Legislature provided a non-lapsing, one-time allocation of \$3,500,000 from the General Fund in FY 2007.		
Purpose of Fund: To provide funding for wildlife habitat restoration and improvement projects.		
Funds Expended	0	0
Year-End Fund Balance	400	400
Wildlife Theft Prevention Fund (GFA2080/A.R.S. § 17-315)		Non-Appropriated
Source of Revenue: Fines charged for the unlawful taking, wounding or killing, or unlawful possession of wildlife; and monies received from donations.		
Purpose of Fund: To finance reward payments to persons providing information about illegal wildlife activities; to finance the department's "Operation Game Thief" program; and to promote awareness of the Wildlife Theft Prevention program.		
Funds Expended	186,800	260,800
Year-End Fund Balance	128,600	74,500

Department of Gaming

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	155.8	155.8	155.8
Personal Services	3,859,700	4,686,100	4,686,100
Employee Related Expenditures	1,532,000	1,564,500	1,564,500
Professional and Outside Services	379,400	409,100	409,100
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	1,088,800
Equipment	85,400	266,300	266,300
OPERATING SUBTOTAL	7,216,200	8,295,500	8,295,500
SPECIAL LINE ITEMS			
Additional Operating Expenses	372,300	768,400	0
Arizona Breeders' Award	236,500	250,000	0
Casino Operations Certification	1,488,500	2,105,400	2,081,800
County Fairs Livestock and Agriculture Promotion	1,779,500	1,779,500	1,779,500
Division of Racing	2,067,900	1,917,900	1,886,000
Problem Gambling	2,264,700	2,287,000	2,287,000
AGENCY TOTAL	15,425,600	17,403,700	16,329,800
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	10,282,500
Racing Regulation Fund	2,104,400	2,167,900	1,886,000
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,488,500	2,105,400	2,081,800
SUBTOTAL - Other Appropriated Funds	13,446,100	15,624,200	14,550,300
SUBTOTAL - Appropriated Funds	15,425,600	17,403,700	16,329,800
Other Non-Appropriated Funds	1,510,800	1,420,800	1,421,100
TOTAL - ALL SOURCES	16,936,400	18,824,500	17,750,900

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 Baseline includes \$8,295,500 in FY 2019 for administrative expenses, which consists of \$8,295,500 for operating budget expenditures and no funding for the Additional Operating Expenses line item.

The department's actual spending level will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's 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.

The FY 2018 General Appropriation Act appropriated \$9,063,900 to the department for administrative expenses in FY 2018. That amount consists of \$8,295,500 for operating budget expenditures and \$768,400 in a separate line item for additional operating expenses. The department spent \$7,588,500 (\$7,216,200 from the operating budget and \$372,300 from the Additional Operating Expenses line item) on administrative expenses

in FY 2017, which is less than the FY 2017 appropriation of \$8,295,300. Given the significant underspending of the appropriation, the Baseline ex-appropriates a portion of the FY 2018 appropriation. *(Please see FY 2018 Ex-Appropriation section in Other Issues for more information.)*

In FY 2019, 9% of tribal gaming revenues are forecasted to be \$8,409,000. The Baseline includes expenditure authority for \$8,295,500 in FY 2019. This amount represents the level of prior year appropriation, but there would be no funding for the Additional Operating Expenses line item given the prior year underspending. Any additional revenues received into the Arizona Benefits Fund beyond \$8,295,500 would be deposited into the Instructional Improvement Fund pursuant to A.R.S. § 5-601.02.

Problem Gambling

The Baseline includes \$2,287,000 for Problem Gambling, which consists of \$1,987,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

The department's actual spending level for Problem Gambling from the Arizona Benefits Fund will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative and the Tribal-State Gaming Compacts, the department's Problem Gambling expenses from the Arizona Benefits Fund are limited to 2% of revenues.

In FY 2019, 2% of tribal gaming revenues are projected to be \$1,868,700. In that circumstance, the department would not be able to fully expend its appropriation of \$1,987,000 for Problem Gambling from the Arizona Benefits Fund. If gaming revenues are higher than the forecast, the department would be able to expend more of the FY 2019 amount up to \$1,987,000.

Gaming Revenues

From FY 2016 to FY 2017, state gaming revenues decreased (1.0)% to \$89,839,300. Based on reports from the first half of FY 2018, the Baseline projects that total gaming revenues will increase by 4% in FY 2018 to a level of \$93,432,900, then remain flat at \$93,432,900 in FY 2019. *(See Table 3 for more information on projected state revenues and department allocations.)*

Operating Budget

The Baseline includes \$8,295,500 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2019 for the operating budget. These amounts are unchanged from FY 2018.

Additional Operating Expenses

The Baseline includes no funding for the Additional Operating Expenses line item in FY 2019. FY 2019 adjustments are as follows:

Expenditure Realignment

The Baseline includes a decrease of \$(768,400) from the Arizona Benefits Fund in FY 2019 to realign the agency's appropriated funding amount with expected expenditures.

Monies in this line item are used to align spending with the 9% of projected tribal contributions in the event that gaming revenues from tribal contributions exceed the projected amount. Given the department's underspending of prior year appropriations, this line item is eliminated in the FY 2019 Baseline.

Arizona Breeders' Award

The Baseline includes no funding in FY 2019 for the Arizona Breeders' Award. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(250,000) from the Racing Regulation Fund in FY 2019 for the elimination of one-time funding.

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 Baseline includes \$2,081,800 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2019 for Casino Operations Certification. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(23,600) from the Tribal-State Compact Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming

office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

County Fairs Livestock and Agriculture Promotion

The Baseline 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 Baseline includes \$1,886,000 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(31,900) from the Racing Regulation Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Division of Racing.

The Baseline continues the funding level set in FY 2018 to reflect a continued lower assessment level. Laws 2017, Chapter 312 reduced the RWA rate in FY 2018 only from 0.85% to 0.5%. The Legislature will determine the final RWA rate for FY 2019, which may further affect the division’s regulatory activity level.

The Racing Regulation Fund was established by Laws 2011, Chapter 35 and has since maintained an average fund balance of \$1,039,500. From FY 2012 to FY 2017 the fund averaged \$2,773,500 in annual ongoing revenue in comparison to \$2,387,900 in annual expenditures. In FY 2017 the fund had a year-end balance of \$1,873,000 million. FY 2018 revenues are expected to be \$(589,400) below FY 2018 expenditures, with an estimated year-end balance of \$1,283,600.

Table 1 displays evaluation metrics used to measure the regulatory activity level of the division. Between FY 2008 and FY 2017, racing activities decreased by about 50% while during that same time period the amount of administrative funding appropriated to the division decreased by 22%.

The Division of Racing regulates the pari-mutuel horse and greyhound racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties. The Division of Racing also oversees the Arizona Boxing and Mixed Martial Arts Commission. The commission is responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona.

Problem Gambling

The Baseline includes \$2,287,000 and 5 FTE Positions in FY 2019 for Problem Gambling. These amounts consist of:

Arizona Benefits Fund	1,987,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2018.

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 Baseline

Table 1

Racing Regulatory Activities and Budget

	<u>FY 2008</u>	<u>FY 2017</u>	<u>% Change</u>
Animals Tested	6,900	1,384	(80)
Live Races	10,200	5,500	(46)
On-Track Attendance	819,425	385,463	(59)
Racing Handle ^{1/}	\$230,800,000	\$119,500,000	(48)
Appropriated Funds	\$2,661,600	\$2,067,900 ^{2/}	(22)

^{1/} Does not include figures for Advance Deposited Wagering or County Fair Races.

^{2/} Does not include \$1,779,500 GF appropriation for the County Fairs Livestock and Agriculture Promotion Special Line Item as those monies are used for promotional efforts.

includes \$1,987,000 in FY 2019 from the Arizona Benefits Fund. (See Table 3 for more information on projected state revenues and department allocations.)

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote requiring the department to report on expected expenditures from the Additional Operating Expenses line item.

STATUTORY CHANGES

The Baseline would, as session law, continue the FY 2018 Racing Wagering Assessment (RWA) rate of 0.5% in FY 2019. Laws 2017, Chapter 312 reduced the RWA rate in FY 2018 only from 0.85% to 0.5%. The final RWA rate for FY 2019 will be determined by the Legislature.

Other Issues

FY 2018 Ex-Appropriation

The Baseline includes a \$(768,400) ex-appropriation from the Arizona Benefits Fund in FY 2018 related to unutilized funding for administrative expenses. While the enacted budget included \$768,400 from the Arizona Benefits Fund for additional operating expenses, the department's FY 2017 administrative expenditures were significantly below their operating budget appropriation. Therefore, the department does not require the additional expenditure authority.

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

Table 2

Class III Gaming Devices Statewide			Allowed by
	FY 2006	FY 2018	Compacts
Poker and Blackjack Tables	455	482	3,318 ^{1/}
Slot Machines	12,354	15,263	18,158 ^{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.

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 2 displays the maximum number of gaming devices allowed under the Tribal-State Gaming Compacts.

Table 3

Tribal Gaming Distributions Pursuant to Proposition 202 ^{1/}

<u>Recipient</u>	<u>Proposition 202 Formula</u>	<u>FY 2016 Actual ^{1/}</u>	<u>FY 2017 Actual ^{1/}</u>	<u>FY 2018 Projected</u>	<u>FY 2019 Projected</u>
State Government Distribution	88% of total	\$ 90,752,600	\$ 89,839,300	\$ 93,432,900 ^{2/}	\$ 93,432,900 ^{2/}
Local Government Distribution ^{3/}	12% of total	<u>12,375,400</u>	<u>12,250,900</u>	<u>12,740,800</u>	<u>12,740,800</u>
Total	100% of total	\$103,128,000	\$102,090,200	\$106,173,700	\$106,173,700
Allocation of State Government's Share					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,167,700	\$ 8,083,800	\$ 8,409,000 ^{4/}	\$ 8,409,000 ^{4/}
Department of Gaming Problem Gambling	2%	<u>1,815,100</u>	<u>1,796,800</u>	<u>1,868,700 ^{5/}</u>	<u>1,868,700 ^{5/}</u>
Subtotal-Department of Gaming		\$ 9,982,800	\$ 9,880,600	\$ 10,277,700	\$ 10,277,700
Instructional Improvement Fund (Department of Education)	56% of remainder	45,231,200	44,776,900	46,567,000	46,567,000
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	22,615,500	22,388,400	23,283,400	23,283,400
Arizona Wildlife Conservation Fund	8% of remainder	6,461,600	6,396,700	6,652,400	6,652,400
Tourism Fund	8% of remainder	<u>6,461,600</u>	<u>6,396,700</u>	<u>6,652,400</u>	<u>6,652,400</u>
Total		\$ 90,752,700	\$ 89,839,300	\$ 93,432,900	\$ 93,432,900

- ^{1/} The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.
- ^{2/} The Baseline projects 4.0% growth in FY 2018 and 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 Baseline includes \$8,295,500, 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 would allow the Legislature to appropriate up to \$8,409,000 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 and FY 2019 Baseline include \$1,987,000, A.R.S. § 5-601.02H3 requires 2% of state gaming revenues to be used for problem gambling prevention. This provision is expected to allow the department to only expend \$1,868,700 for problem gambling expenditures in FY 2018 and FY 2019.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Benefits Fund (GMA2350/A.R.S. § 5-601.02)		Partially-Appropriated
Source of Revenue: Tribal organizations, which have gaming compacts with the state, pay a portion of their gaming revenues to the state.		
Purpose of Fund: Provide funding for the regulation of tribal gaming and prevention of problem gambling. In addition, the Arizona Benefits Fund distributes monies to various state funds. <i>(See individual agency pages for detailed information on each recipient.)</i>		
Appropriated Funds Expended by Department of Gaming	9,553,200	11,050,900
Funds Transferred		
Instructional Improvement Fund	44,776,900	46,567,000
Trauma and Emergency Services Fund	22,388,400	23,283,400
Arizona Wildlife Conservation Fund	6,396,700	6,652,400
Tourism Fund	<u>6,396,700</u>	<u>6,652,400</u>
Funds Expended	79,958,700	83,155,200
Year-End Fund Balance	2,147,600	1,730,100
Arizona Breeders' Award Fund (GMA2206/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: Legislative appropriations. The FY 2018 General Appropriation Act changed the funding source from the General Fund to the Racing Regulation Fund. Appropriated expenditures are not displayed to avoid double counting. The fund also receives revenue derived from the source market fees paid from advance deposit wagering on horse racing. Of the amount allocated for purses, 5% is deposited in the fund.		
Purpose of Fund: To give awards to the breeder of every winning horse or greyhound foaled or whelped in this state.		
Funds Expended	0	30,000
Year-End Fund Balance	245,700	501,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
DPS-FBI Fingerprint Fund (GMA2159/A.R.S. § 41-1750)		Non-Appropriated
Source of Revenue: Revenues include fees collected from fingerprint clearance cards.		
Purpose of Fund: Revenues are transferred to the Department of Public Safety (DPS) to process fingerprint clearance cards. Fund is basically a "pass through" for fingerprinting fees payable to DPS.		
Funds Expended	55,500	50,000
Year-End Fund Balance	1,600	1,600
Greyhound and Retired Racehorse Adoption Fund (GMA2015/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: License fees collected from dog breeders, racing kennels, and other operations where greyhounds are raised for dog racing. Additional monies are collected by the horse adoption surcharge that receives 5% of all horse racing related fines.		
Purpose of Fund: To provide funding for grants to non-profit organizations for the promotion and adoption of retired racing greyhounds and horses.		
Funds Expended	1,400	1,400
Year-End Fund Balance	300	600
IGA and ISA Fund (GMA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA) and Intergovernmental Service Agreements (ISA).		
Funds Expended	1,424,700	1,320,000
Year-End Fund Balance	820,400	950,400
State Lottery Fund (GMA2122/A.R.S. § 5-571)		Appropriated
Source of Revenue: Funds transferred from the State Lottery Fund.		
Purpose of Fund: Provide additional funding to the department's Problem Gambling program. These funds are expended to prevent, educate, and treat individuals suffering from problem gambling.		
Funds Expended	300,000	300,000
Year-End Fund Balance	400	400
Racing Administration Fund (GMA2018/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: There are no revenues in this fund. The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) transferred the remaining balance of \$23,700 in the Racing Administration Fund to the Racing Regulation Fund.		
Purpose of Fund: To administer the Arizona County Fairs Racing Betterment Fund, the Arizona Breeders' Award Fund, the Arizona Stallion Award Fund, and the Greyhound Adoption Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Racing Commission Bond Deposit Fund (GMA3720/A.R.S. § 5-107)		Non-Appropriated
Source of Revenue: There are no revenues in this fund. The fund holds bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing also deposits all racing and boxing applicant or licensee payments submitted in excess of the amount due into this fund.		
Purpose of Fund: To hold bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing requires racing permittees to post a bond with the Division of Racing each year, which is refunded when the permittee withdraws their permit. Forfeited bonds are deposited in the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	55,600	55,600

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Racing Investigation Fund (GMA2369/A.R.S. § 41-705)		Non-Appropriated
Source of Revenue: Monies collected from persons, partnerships, associations or corporations that hold a permit for a racing meeting under Title 5.		
Purpose of Fund: To cover the cost of racing investigations by the Arizona Department of Racing. The fund is administered by the Department of Administration and disbursements are made pursuant to instructions from the Director of the Department of Racing.		
Funds Expended	0	0
Year-End Fund Balance	30,600	30,600
Racing Regulation Fund (GMA2556/A.R.S. § 5-113.01)		Appropriated
Source of Revenue: License fees and regulatory assessments established by the Arizona Department of Racing and the Boxing Commission, pari-mutuel taxes from wagering at horse and dog racing facilities and donations or grants received by the department.		
Purpose of Fund: To support the mission of the department.		
Funds Expended	2,104,400	2,167,900
Year-End Fund Balance	1,873,000	1,283,600
Racing Regulation Fund - Mixed Martial Arts Account (GMA2393/A.R.S. § 5-225)		Non-Appropriated
Source of Revenue: Fees established by the Boxing Commission for unarmed combat events.		
Purpose of Fund: To pay for the administration and regulation of unarmed combat.		
Funds Expended	29,200	19,400
Year-End Fund Balance	73,700	93,300
Tribal-State Compact Fund (GMA2340/A.R.S. § 5-601)		Appropriated
Source of Revenue: The fund receives monies from gaming vendors and gaming employees to pay for their certification.		
Purpose of Fund: Pay for the actual cost of performing background investigations on gaming employees and vendors to determine suitability for state certification.		
Funds Expended	1,488,500	2,105,400
Year-End Fund Balance	1,801,900	1,886,300

Office of the Governor

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	6,724,900	6,921,400	6,849,900
SPECIAL LINE ITEMS			
Computer Science Initiative	0	200,000	0
Foster Youth Education Success Program	0	1,500,000	0
School Leadership Training	0	250,000	0
AGENCY TOTAL	6,724,900	8,871,400	6,849,900
FUND SOURCES			
General Fund	6,724,900	8,871,400	6,849,900
SUBTOTAL - Appropriated Funds	6,724,900	8,871,400	6,849,900
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	36,351,300

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 Baseline includes \$6,849,900 from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(71,500) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Computer Science Initiative

The Baseline 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 Baseline 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.

Foster Youth Education Success Program

The Baseline includes no funding from the General Fund in FY 2019 for the Foster Youth Education Success Program. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,500,000) from the General Fund in FY 2019 for the Foster Youth Education Success Program.

The Foster Youth Education Success Program was established to improve the educational outcomes of children in Arizona's foster care system.

School Leadership Training

The Baseline 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 Baseline 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 is required to provide a copy of this report to the Secretary of State.

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the Lump Sum appropriation of \$6,849,900 for FY 2019 is \$10,000 for the purchase of mementos and items for visiting officials.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
County Fairs Livestock and Agriculture Promotion Fund (GVA2037/A.R.S. § 5-113)		Non-Appropriated
<i>Source of Revenue:</i> General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
<i>Purpose of Fund:</i> To promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center. The direct expenses, less receipts, of the annual Livestock Fair are paid from this fund. Net expenditures for the Livestock Fair are limited to 30% of all receipts deposited to this fund during the preceding fiscal year. All expenditures from this fund must be recommended by the Livestock and Agricultural Committee and approved by the Governor.		
Funds Expended	0	0
Year-End Fund Balance	250,100	250,000
Federal Grants (GVA2000/A.R.S. § 4-101.01)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants for various purposes, including services for women, children's services, and the Office for Drug Policy.		
<i>Purpose of Fund:</i> To provide separate accounting for the administration, supervision and distribution of federal grants made to the Office of the Governor, on behalf of the State of Arizona.		
Funds Expended	16,204,900	27,015,700
Year-End Fund Balance	400	200
Foster Youth Education Success Fund (No Fund Number/A.R.S. § 41-108)		Non-Appropriated
<i>Source of Revenue:</i> General Fund appropriations. Public or private gifts, grants and donations. Expenditures are not displayed to avoid double counting the General Fund.		
<i>Purpose of Fund:</i> To improve the educational outcomes of children in Arizona's foster care system.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Governor's Endowment Partnership Fund (GVA3206/A.R.S. § 41-1105)		Non-Appropriated
<i>Source of Revenue:</i> Public or private gifts, grants and donations. All donations, except those from established non-profit economic development organizations, are limited to \$5,000, per person, each fiscal year.		
<i>Purpose of Fund:</i> This fund was established by Executive Order 92-7, to promote the interests of the state and encourage public service to Arizona by its citizens. Expenditures may include promoting economic development in Arizona, recruiting new industries, appropriate memorabilia or gifts for dignitaries or citizen volunteers, and promoting good working relationships between the various branches of national, state, and local governments.		
Funds Expended	84,700	78,700
Year-End Fund Balance	73,400	46,700
IGA and ISA Fund (GVA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Monies received through intergovernmental and interagency service agreements.		
<i>Purpose of Fund:</i> To execute intergovernmental and interagency service agreements.		
Funds Expended	746,800	713,000
Year-End Fund Balance	431,100	368,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Indirect Cost Recovery Fund (GVA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	3,742,000	1,462,400
Year-End Fund Balance	4,671,000	4,108,600
Prevention of Child Abuse Fund (GVA2439/A.R.S. § 41-109)		Non-Appropriated
Source of Revenue: The fund receives \$17 of the annual \$25 fee for original and renewal child abuse prevention special license plates.		
Purpose of Fund: To be allocated by the Director of the Division for Children in the Governor's Office for programs to prevent child abuse in the state of Arizona. Not more than 3% of annual fund revenues shall be used to administer the fund.		
Funds Expended	241,200	231,600
Year-End Fund Balance	124,100	124,000

Governor's Office of Strategic Planning and Budgeting

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	361,500
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	207,200
Equipment	26,600	1,800	1,800
AGENCY TOTAL	2,229,300	2,014,600	1,994,000
FUND SOURCES			
General Fund	2,229,300	2,014,600	1,994,000
SUBTOTAL - Appropriated Funds	2,229,300	2,014,600	1,994,000
TOTAL - ALL SOURCES	2,229,300	2,014,600	1,994,000

AGENCY DESCRIPTION — The Governor's Office of Strategic Planning and Budgeting advises the Governor in the preparation of the Executive budget and provides the Executive Branch a central resource for the compilation, analysis, and investigation of state fiscal matters. It facilitates a strategic planning process and assists agencies in preparation and execution of their budgets.

Operating Budget

* * *

The Baseline includes \$1,994,000 and 22 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(20,600) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Department of Health Services

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,065.5	1,065.5	1,100.0
Personal Services	19,719,500	21,145,500	21,145,500
Employee Related Expenditures	7,812,700	8,666,200	8,205,600
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	13,036,200	13,036,200
Equipment	551,400	1,988,800	1,988,800
OPERATING SUBTOTAL	44,876,500	46,979,900	46,519,300
SPECIAL LINE ITEMS			
Arizona State Hospital			
Arizona State Hospital-Operating	57,572,400	61,540,300	60,485,600
Arizona State Hospital-Restoration to Competency	574,500	900,000	900,000
Arizona State Hospital-Sexually Violent Persons	8,996,900	9,766,900	9,639,100
Public Health/Family Health			
Adult Cystic Fibrosis	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	1,125,000
Biomedical Research Support	1,501,300	2,000,000	2,000,000
Pediatric Autoimmune Neurological 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
Newborn Screening Program	6,366,300	7,242,100	7,210,300
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
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	1,621,500
Nuclear Emergency Management Program	0	0	789,700
AGENCY TOTAL	128,783,400	140,275,900	139,512,200
FUND SOURCES			
General Fund	81,588,700	87,669,400	88,624,200
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	8,363,300	6,808,800	5,562,000
ASH Land Earnings Fund	738,800	970,000	650,000
Capital Outlay Stabilization Fund	1,548,500	1,559,900	1,559,900
Child Fatality Review Fund	93,300	96,900	94,700
Disease Control Research Fund	83,400	0	0
Emergency Medical Services Operating Fund	5,061,600	6,248,100	5,707,900
Environmental Laboratory Licensure Revolving Fund	841,100	930,400	924,200
Federal Child Care and Development Fund Block Grant	831,800	887,900	872,300

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
TTHCF - Health Research Account	3,501,300	4,000,000	3,000,000
Health Services Licensing Fund	8,913,500	9,372,700	9,232,300
DHS Indirect Cost Fund	8,447,500	9,581,300	9,546,100
Newborn Screening Program Fund	6,799,100	7,674,900	7,643,100
Nuclear Emergency Management Fund	0	0	789,700
Nursing Care Institution Resident Protection Revolving Fund	22,700	138,200	138,200
Radiation Regulatory Fee Fund	0	0	576,500
State Radiologic Technologist Certification Fund	0	0	271,600
TTHCF - Medically Needy Account	587,300	700,000	700,000
Vital Records Electronic Systems Fund	1,361,500	3,637,400	3,619,500
SUBTOTAL - Other Appropriated Funds	47,194,700	52,606,500	50,888,000
SUBTOTAL - Appropriated Funds	128,783,400	140,275,900	139,512,200
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	478,310,400	472,704,500

AGENCY DESCRIPTION — The Department of Health Services (DHS) is responsible for the provision of most public health programs not administered by AHCCCS, the Arizona State Hospital (ASH), emergency medical services, state laboratory support, vital records maintenance, disease control, and epidemiological monitoring. Beginning January 1, 2018, the responsibilities of the Radiation Regulatory Agency are transferred to the Department of Health Services.

Summary

DHS' FY 2019 General Fund spending increases by \$954,800 from FY 2018. Total appropriated fund spending decreases by \$(763,700).

The Baseline includes the following General Fund changes:

- \$1,200,000 to transfer funding from AHCCCS to ASH.
- \$787,600 for transfer of the Radiation Regulatory Agency to DHS.
- \$(1,032,800) for the removal of a one-time FY 2018 health insurance adjustment.

In addition, the Baseline includes the following \$(1,718,500) in changes from other appropriated fund sources:

- \$(1,200,000) as part of a transfer of funding from AHCCCS to ASH.
- \$(320,000) for elimination of a one-time ASH equipment appropriation.
- \$(1,000,000) for elimination of a one-time increase for Alzheimer's Research.
- \$(500,000) for elimination of a one-time deposit to the Public Health Emergencies Fund.

- \$1,646,400 for transfer of the Radiation Regulatory Agency to DHS, including the Nuclear Emergency Management Program line item.
- \$(344,900) for the removal of a one-time FY 2018 health insurance adjustment.

Operating Budget

The Baseline includes \$46,519,300 and 311.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$16,383,400
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	94,700
Emergency Medical Services (EMS) Operating Fund	3,815,900
Environmental Laboratory Licensure Revolving Fund	924,200
Federal Child Care and Development Fund (CCDF) Block Grant	872,300
Health Services Licensing Fund	9,232,300
DHS Indirect Cost Fund	9,546,100
Newborn Screening Program Fund	432,800
Nursing Care Institution Resident Protection Revolving Fund	38,200
Vital Records Electronic Systems Fund	3,619,500

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(460,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(202,900)
Child Fatality Review Fund	(2,200)
Emergency Medical Services (EMS) Operating Fund	(40,200)
Environmental Laboratory Licensure Revolving Fund	(6,200)
Federal Child Care and Development Fund (CCDF) Block Grant	(15,600)
Health Services Licensing Fund	(140,400)
Indirect Cost Fund	(35,200)
Vital Records Electronic Systems Fund	(17,900)

(Please see the Technical Budget Assumptions section.)

Arizona State Hospital

ASH - Operating

The Baseline includes \$60,485,600 and 616.5 FTE Positions in FY 2019 for the ASH operating budget. These amounts consist of:

General Fund	58,169,200
ASH Fund	1,666,400
ASH Land Earnings Fund	650,000

FY 2019 adjustments are as follows:

AHCCCS General Fund Transfer

The Baseline 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.)*

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

Remove One-Time Funding

The Baseline includes a decrease of \$(320,000) from the ASH Land Earnings Fund in FY 2019 for elimination of a one-time appropriation to purchase new beds and light fixtures for ASH patient rooms.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(734,700) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$900,000 from the ASH Fund in FY 2019 for ASH - Restoration to Competency. This amount is unchanged from FY 2018.

The FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309) continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH. The Baseline continues 100% county funding for RTC.

Background – ASH provides treatment to restore to competency individuals who are found incompetent to stand trial. Prior to 1997, counties paid 100% of the cost of restoring patients to competency. In FY 1997, the state assumed the full cost of RTC treatment. In FY 2002, the state began requiring cities and counties to pay 86% of the costs of the program. The state continued to vary the required reimbursement rate over the next several years. Beginning in FY 2010, budget-related session laws have required all counties to pay 100% of the daily cost of care for RTC patients treated at ASH. In FY 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 Baseline includes \$9,639,100 and 112.5 FTE Positions in FY 2019 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,643,500
ASH Fund	2,995,600

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(127,800) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(81,000)
ASH Fund	(46,800)

Background – After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. In FY 2017, ASH had an average monthly census of 100 Sexually Violent Persons (SVPs).

Since FY 2010, counties that have sent SVPs to ASH are responsible for a portion of the daily cost of care. The FY 2018 Health BRB continues to require counties to pay 31% of their total SVP costs in FY 2018. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings. The Baseline maintains the county share of SVP funding of 31%.

Public Health/Family Health

Adult Cystic Fibrosis Care

The Baseline 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 Baseline includes \$1,000,000 from the General Fund in FY 2019 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2018.

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 Baseline includes \$1,125,000 in FY 2019 for Alzheimer’s Disease Research. This amount consists of:

General Fund	125,000
TTHCF - Health Research Account	1,000,000

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,000,000) from the TTHCF - Health Research Account in FY 2019 for the elimination of a one-time increase in Alzheimer’s research funding. The FY 2017 budget increased the appropriation from the TTHCF - Health Research Account by \$1,000,000. The FY 2018 budget continued this increase on a one-time basis.

Background – DHS distributes funding in the line item to the Arizona Alzheimer’s Consortium (AAC). The AAC provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer’s disease.

The Baseline continues to permit the department to use TTHCF - Health Research Account monies for Alzheimer’s disease research.

Biomedical Research Support

The Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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.

Newborn Screening Program

The Baseline includes \$7,210,300 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(31,800) from the Newborn Screening Program Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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. 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 Baseline 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) will transfer 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 are transferred to DHS on the effective date. To simplify the display, the FY 2018 column of this Baseline does not reflect the transfer.

Radiation Regulation

The Baseline includes \$1,621,500 and 29 FTE Positions for Radiation Regulation in FY 2019. These amounts consist of:

General Fund	773,400
Radiation Regulatory Fee Fund	576,500
State Radiologic Technologist Certification Fund	271,600

FY 2019 adjustments are as follows:

Agency Transfer

The Baseline includes an increase of \$1,644,300 and 29 FTE Positions in FY 2019 for the transfer of Radiation Regulatory Agency responsibilities to DHS. These amounts consist of:

General Fund	787,600
Radiation Regulatory Fee Fund	582,900
State Radiologic Technologist Certification Fund	273,800

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(22,800) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. These amounts consist of:

General Fund	(14,200)
Radiation Regulatory Fee Fund	(6,400)
State Radiologic Technologist Certification Fund	(2,200)

Radiation regulation includes oversight of the use, storage, and disposal of sources of radiation.

Nuclear Emergency Management Program

The Baseline 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 Baseline 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.

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

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

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

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

* * *

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/} Effective January 1, 2018, the responsibilities of the Radiation Regulatory Agency transfer to DHS.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Departmentwide

The Department of Health Services shall electronically forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation.

Arizona State Hospital

In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent State Land Funds are appropriated to the Arizona State Hospital in compliance with the Enabling Act and the Constitution of Arizona.

Public Health/Family Health

Of the \$1,125,000 for Alzheimer’s Disease Research, \$1,000,000 is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773.

The Department of Health Services may use up to 4% of the amount appropriated for Nonrenal Disease Management for the administrative costs to implement the program.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to require all cities and counties to pay 100% of the Restoration to Competency Costs. *(See ASH - Restoration to Competency for more information.)*
- As session law, continue to require all counties to pay 31% of their total Sexually Violent Persons (SVP) costs throughout the entire commitment process, including pre-adjudication proceedings. The Baseline would, as session law, also continue to allow counties to use any source of county revenue to make the transfers and exempt county contributions from county expenditure limitations. *(See ASH – Sexually Violent Persons for more information.)*
- As session law, continue to notwithstanding A.R.S. § 36-773 to permit DHS use of Tobacco Tax and Health Care Fund - Health Research Account monies for Alzheimer’s disease research. *(See Alzheimer’s Disease Research for more information.)*
- As session law, continue to notwithstanding A.R.S. § 36-108.01 and § 5-572C to allow monies in the Health Services Lottery Monies Fund to be used for DES domestic violence prevention programs. *(See the DES narrative for more information.)*
- As session law, continue fee raising authority and an exemption relating to establishing fees for Radiation Regulation in FY 2019 and continue an intent clause that limits additional revenues to \$561,000.

Other Issues

This section includes information on the following topics:

- Arizona State Hospital Fund Deficit
- Medical Marijuana Fund Balance

Arizona State Hospital Fund Deficit

The ASH Fund has ongoing expenses that are higher than its ongoing revenues. *Table 2* below shows ASH Fund revenues and spending from FY 2015 to FY 2019. The fund receives payments from counties for the RTC program and the SVP program, as well as a limited amount of reimbursement from Medicaid and Medicare. Previously, Title XIX allowed DHS to be reimbursed for daily care of patients between 21 and 64 years old for up to 30 days. Changed rules now allow Medicaid reimbursement for up to 15 days, which may impact ASH Fund revenues. DHS projects that ASH Fund disbursements will exceed ASH Fund revenues by \$1.8 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 Baseline would transfer \$1.2 million of the AHCCCS Non-Medicaid SMI General Fund appropriation to the ASH - Operating line item in FY 2019 on an ongoing basis. The ASH Fund appropriation would have a corresponding decrease of \$(1.2) million.

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.

Proposition 203 narrowly defined the fund's purpose to be used for regulation of the Medical Marijuana Program. There are 2 potential routes to using monies in the fund for purposes other than medical marijuana regulation: 1)

Table 2

ASH Fund Revenues and Expenditures

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018 ^{1/}</u>	<u>FY 2019 ^{1/}</u>
Beginning Balance	\$0.6	\$ 0.9	\$1.6	\$2.3
Revenue	6.9	4.8	5.0	5.0
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	\$7.3
Spending ^{3/ 4/}	<u>9.1</u>	<u>9.1</u>	<u>6.8</u>	<u>5.6</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 Baseline 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 would have a corresponding decrease of \$(1.2) million.

the Legislature would need a three-fourths vote in both chambers and the use would have to further the purpose of the act; or 2) introduction of another ballot proposition for voter approval of an alternative use of the monies.

Medical Marijuana Fund History			
	FY 2015	FY 2016	FY 2017
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 Dispensaries	2,412	2,752	3,930

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona State Hospital Fund (HSA3120/A.R.S. § 36-545.08)		Appropriated
Source of Revenue: State monies and matching federal monies for disproportionate share payments at the Arizona State Hospital, Medicaid reimbursement for services provided at the Arizona State Hospital, and monies collected for services to clients at the state hospital. The FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309) continues to require that all counties pay 100% of the cost of care for Restoration to Competency patients and 31% of the cost of patients in the Sexually Violent Persons (SVP) program.		
Purpose of Fund: To provide treatment of patients at the Arizona State Hospital or to place Arizona State Hospital patients in the community.		
Funds Expended	8,363,300	6,808,800
Year-End Fund Balance	1,746,800	2,381,600
Arizona State Hospital Charitable Trust Fund (HSA3170/A.R.S. § 36-218)		Non-Appropriated
Source of Revenue: Monies received from contracts and lease agreements on Arizona State Hospital property.		
Purpose of Fund: To benefit persons with mental illness in this state. Laws 2017, Chapter 288 created the fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Arizona State Hospital Land Earnings Fund (HSA3128/A.R.S. § 36-211)		Appropriated
Source of Revenue: Monies received from interest on the Arizona State Hospital's Permanent Land Fund, as established through Arizona's Enabling Act, Section 25, and the monies derived from the lease of these lands and miscellaneous revenue.		
Purpose of Fund: For the benefit and support of the Arizona State Hospital.		
Funds Expended	738,800	970,000
Year-End Fund Balance	1,250,600	1,458,100
Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund (HSA2513/A.R.S. § 36-119)		Non-Appropriated
Source of Revenue: Revenues from special plate fees and renewals. Of the \$25 fee, \$8 is for administrative costs deposited to the State Highway Fund and \$17 is deposited into the Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund.		
Purpose of Fund: For breast and cervical cancer screening and diagnostic and outreach services.		
Funds Expended	6,000	521,000
Year-End Fund Balance	888,800	564,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Capital Outlay Stabilization Fund (HSA1600/A.R.S. § 41-792.01)		Appropriated
Source of Revenue: Appropriations from the Arizona Department of Administration Capital Outlay Stabilization Fund and transfers from the Arizona Department of Administration (see Arizona Department of Administration for more detail on Capital Outlay Stabilization Fund).		
Purpose of Fund: Lease-purchase payments for the state health laboratory (transfers from Arizona Department of Administration are spent for building renewal).		
Funds Expended	1,548,500	1,559,900
Year-End Fund Balance	0	0
Child Fatality Review Fund (HSA3036/A.R.S. § 36-3504)		Appropriated
Source of Revenue: A \$1 surcharge on fees collected on all certified copies of death certificates, up to \$100,000. Any revenue collected in excess of \$100,000 is transferred from the fund to the Child Abuse Prevention Fund in the Department of Child Safety.		
Purpose of Fund: To organize county child fatality review teams and to study data collected by these teams to determine ways to reduce the state's child mortality rate.		
Funds Expended	93,300	96,900
Year-End Fund Balance	139,400	319,300
Disease Control Research Fund (HSA2090/A.R.S. § 36-274)		Partially-Appropriated
Source of Revenue: Monies appropriated by the Legislature and any gifts, contributions or other monies received by the Disease Control Research Commission from any other source, including Proposition 204.		
Purpose of Fund: To be used for projects or services that may advance research in the causes, epidemiology and prevention of disease, including discovery and development. Laws 2016, Chapter 207 appropriated \$250,000 from this fund for distribution of competitive grants for pediatric autoimmune neurological disorders research.		
Appropriated Funds Expended	83,400	0
Non-Appropriated Funds Expended	2,006,900	3,055,200
Year-End Fund Balance	5,279,000	4,945,600
Donations - DHS (HSA3010/2025/A.R.S. § 36-132)		Non-Appropriated
Source of Revenue: Individual donations for various health related purposes.		
Purpose of Fund: For specific purposes as designated by the donors. Monies donated pursuant to A.R.S. § 36-213 and A.R.S. § 36-204 for the Arizona State Hospital are accounted for separately.		
Funds Expended	171,800	307,200
Year-End Fund Balance	1,247,800	1,214,000
Donations - Statewide (HSA2025/A.R.S. § 36-132)		Non-Appropriated
Source of Revenue: Individual donations from employee recognition events.		
Purpose of Fund: Employee recognition purposes.		
Funds Expended	5,400	0
Year-End Fund Balance	7,300	13,100
Emergency Medical Services Operating Fund (HSA2171/A.R.S. § 36-2218)		Appropriated
Source of Revenue: The fund receives 48.9% of the Medical Services Enhancement Fund revenues, which are collected from a 13% surcharge on fines charged for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To fund local and state emergency medical services systems.		
Funds Expended	5,061,600	6,248,100
Year-End Fund Balance	4,890,100	3,124,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Environmental Laboratory Licensure Revolving Fund (HSA3017/A.R.S. § 36-495.15)		Appropriated
Source of Revenue: Fees collected for environmental lab licensure, fees derived from department-sponsored workshops, and monies from gifts, grants, and donations.		
Purpose of Fund: For costs associated with licensing environmental laboratories by the Department of Health Services.		
Funds Expended	841,100	930,400
Year-End Fund Balance	575,100	397,000
Federal Child Care and Development Fund Block Grant (HSA2008/U.S. P.L 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: A portion of the Federal Child Care and Development Block Grant provides the Assurance and Licensure Division with monies for the licensure of child care facilities.		
Funds Expended	831,800	887,900
Year-End Fund Balance	147,900	147,500
Federal Funds (HSA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants and reimbursements from the federal government.		
Purpose of Fund: To provide health services in accordance with the terms of each specific grant.		
Funds Expended	258,011,600	252,079,500
Year-End Fund Balance	3,565,300	3,565,300
Health Services Licensure Fund (HSA1995/A.R.S. § 36-405, A.R.S. § 36-414)		Appropriated
Source of Revenue: Fees for health care institution licensing services and monies from the examination and licensing of hearing and speech professionals.		
Purpose of Fund: For health care institutions' licensing applications, initial license, renewal license and architectural drawing reviews. Pursuant to A.R.S. § 36-1903, revenues from licensing and examination of hearing and speech professionals are deposited into this fund. DHS establishes nonrefundable fees for assurance and licensure. A total of 90% of assurance and licensure fees are deposited into this fund with the remaining 10% deposited into the General Fund.		
Funds Expended	8,913,500	9,372,700
Year-End Fund Balance	5,441,200	5,845,100
Health Services Lottery Fund (HSA4250/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: State Lottery monies.		
Purpose of Fund: To fund teenage pregnancy prevention programs, the Health Start program, and the federal Women, Infants and Children (WIC) food program.		
Funds Expended	9,399,000	12,306,500
Year-End Fund Balance	7,298,900	1,244,200
IGA and ISA Fund (HSA4500/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: Monies from intergovernmental agreements and interagency services agreements between the Department of Health Services and other state and local entities. In FY 2018, this fund will receive \$12,346,400 from DES pursuant to an interagency service agreement between DHS and DES that requires DHS to provide nutrition education in schools for grades 1-6 using funds from the Supplemental Nutrition Assistance Program (SNAP).		
Purpose of Fund: To fund services which DHS has agreed to perform in IGAs and ISAs with state and local public agencies.		
Funds Expended	15,933,900	16,163,800
Year-End Fund Balance	1,772,400	2,949,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Indirect Cost Fund (HSA9001/A.R.S. § 36-108)		Appropriated
Source of Revenue: Charges made to Federal Funds and interagency agreements in order to reimburse the agency for a portion of the administrative costs of the programs.		
Purpose of Fund: To pay a portion of the administrative personnel and overhead costs associated with various federal programs and interagency agreements.		
Funds Expended	8,447,500	9,581,300
Year-End Fund Balance	3,546,800	3,508,000
Interagency Service Agreement for Behavioral Health Services Fund (HSA4502/A.R.S. § 36-108.01)		Expenditure Authority
Source of Revenue: Federal monies from the Centers for Medicare and Medicaid Services.		
Purpose of Fund: To provide behavioral health services to Medicaid-eligible individuals. This fund was transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapter 19 and 195, and is included in the AHCCCS Federal Medicaid Authority. Laws 2015, Chapter 122 requires monies remaining in the fund on July 1 of fiscal years 2018, 2019, and 2020 be transferred to the state General Fund. The transfer amount may be adjusted for reported by unpaid claims and estimated incurred but unreported claims prior to June 30, 2016. The FY 2018 General Appropriations Act transferred \$35,000,000 from the fund to the state General Fund in FY 2017. The fund will be repealed August 31, 2020. AHCCCS estimates that the FY 2017 ending balance of the fund was \$5.9 million.		
Funds Expended	0	0
Year-End Fund Balance	9,264,900	9,264,900
Internal Services Fund (HSA4202/A.R.S. § 36-104)		Non-Appropriated
Source of Revenue: Charges from other DHS funds.		
Purpose of Fund: Revolving Fund used by DHS warehouse for the purchase of goods.		
Funds Expended	0	0
Year-End Fund Balance	113,900	113,900
Laser Safety Fund (AEA2388/A.R.S. § 32-3234)		Non-Appropriated
Source of Revenue: Fees collected from the authorization of certificates to individuals that operate lasers of Intense Pulsed Light (IPL) devices for health and cosmetic related purposes.		
Purpose of Fund: To fund the costs of issuing licenses to individuals that operate lasers or IPL devices for health related purposes. Laws 2017, Chapter 313 transfers this fund from the Radiation Regulatory Agency to the Department of Health Services, effective January 1, 2018.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Medical Marijuana Fund (HSA2544/A.R.S. § 36-2817)		Non-Appropriated
Source of Revenue: The fund receives application and renewal fees from medical marijuana dispensaries, civil penalties and private donations.		
Purpose of Fund: To enforce provisions of Proposition 203 (Arizona Medical Marijuana Act) enacted in the 2010 General Election. The Arizona Medical Marijuana Act regulates dispensation, prescription, and use of medical marijuana, including an electronic registry of dispensary agents, patients and designated caregivers.		
Funds Expended	11,654,800	16,926,100
Year-End Fund Balance	33,244,000	41,349,900
Medical Student Loan Fund (HSA3306/A.R.S. § 15-1725)		Non-Appropriated
Source of Revenue: Monies from legislative appropriations, and loan repayments of principal, interest, and penalties received by the board. These monies are exempt from lapsing. All monies in the fund are to be used for the Primary Care Provider Loan Repayment Program. There are no new legislative appropriations into this fund.		
Purpose of Fund: To provide loans to defray the medical education expenses of Arizona resident students attending medical school, in return for a service commitment to the state.		
Funds Expended	108,700	80,000
Year-End Fund Balance	138,100	76,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Newborn Screening Program Fund (HSA2184/A.R.S. § 36-694.01)		Appropriated
Source of Revenue: Monies received as part of the hospital charges for each child born in Arizona. Fee limits for newborn screening are \$30 for the first blood and hearing screening and \$40 for the second blood and hearing screening.		
Purpose of Fund: To provide monies for the centralized testing of all newborns in the state for a standard set of 30 metabolic and congenital (environmental/inherited) disorders. Every 4 years the department solicits bids for the contracting of these tests. The State Health Lab holds the current contract. In addition, the fund provides monies for follow-up counseling for the parents of affected infants.		
Funds Expended	6,799,100	7,674,900
Year-End Fund Balance	3,109,800	2,901,200
Nuclear Emergency Management Fund (AEA2138/A.R.S. § 26-306.02)		Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station. Laws 2017, Chapter 43 appropriates \$789,663 to the Arizona Radiation Regulatory Agency in both FY 2018 and FY 2019.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Laws 2015, Chapter 132 appropriated \$789,663 from the General Fund in FY 2017 to be deposited into the fund. The FY 2017 General Fund expenditures are not displayed to avoid double counting of appropriated funds. Laws 2017, Chapter 43 establishes the fund as an appropriated fund with fees directed to the Nuclear Emergency Management Fund rather than the General Fund. Laws 2017, Chapter 313 transfers this fund from the Radiation Regulatory Agency to the Department of Health Services, effective January 1, 2018.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Nursing Care Institution Resident Protection Revolving Fund (HSA2329/A.R.S. § 36-431.02)		Appropriated
Source of Revenue: Civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications.		
Purpose of Fund: For the protection of the health and property of residents of nursing care facilities that are found deficient.		
Funds Expended	22,700	138,200
Year-End Fund Balance	2,193,000	2,193,000
Oral Health Fund (HSA3038/A.R.S. § 36-138)		Non-Appropriated
Source of Revenue: Monies received from AHCCCS contracts for dental services.		
Purpose of Fund: To provide dental services to Medicaid-eligible children identified by the DHS Oral Health program.		
Funds Expended	371,100	357,200
Year-End Fund Balance	823,300	852,000
Public Health Emergencies Fund (HSA2775/A.R.S. § 36-122)		Non-Appropriated
Source of Revenue: Legislative appropriations from the Emergency Medical Services Operating Fund.		
Purpose of Fund: To fund public health emergency responses in the state following an emergency declaration by the Governor. Laws 2017, Chapter 309 created the fund. The FY 2018 General Appropriation Act appropriated \$500,000 to the fund from the Emergency Medical Services Operating Fund.		
Funds Expended	0	500,000
Year-End Fund Balance	0	0
Radiation Regulatory Fee Fund (AEA2554/A.R.S. § 30-658)		Appropriated
Source of Revenue: Includes fees collected for licensing, inspection, and registration fees for individuals and other entities utilizing radiological materials.		
Purpose of Fund: To provide funding for the operating expenses of the agency. Laws 2017, Chapter 313 transfers this fund from the Radiation Regulatory Agency to the Department of Health Services, effective January 1, 2018.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Radiologic Technologist Certification Fund (AEA2061/A.R.S. § 32-2823)		Appropriated
<i>Source of Revenue:</i> License fees paid by x-ray technologists.		
<i>Purpose of Fund:</i> To provide for the licensing of x-ray technologists and the investigation of complaints. Laws 2017, Chapter 313 transfers this fund from the Radiation Regulatory Agency to the Department of Health Services, effective January 1, 2018.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Risk Assessment Fund (HSA2427/A.R.S. § 36-1693)		Non-Appropriated
<i>Source of Revenue:</i> Monies from the Department of Environmental Quality for risk services performed by DHS. The fund may also receive legislative appropriations, gifts, grants, or donations.		
<i>Purpose of Fund:</i> To conduct health effects studies and risk assessments of public health risks from environmental exposure, to evaluate and calculate cleanup standards, to communicate health risks to the public, and for administrative costs of those activities.		
Funds Expended	47,600	60,000
Year-End Fund Balance	52,200	52,600
Smoke Free Arizona Fund (HSA2541/A.R.S. § 36-601.01)		Non-Appropriated
<i>Source of Revenue:</i> A 2¢ per pack tax on cigarettes. Any revenues not used by the department to enforce the smoking ban are deposited to the Tobacco Tax Products Fund to be used for education programs to reduce or eliminate tobacco use.		
<i>Purpose of Fund:</i> To enforce the provisions of Proposition 201 (Smoke Free Arizona Act) enacted in the 2006 General Election. The Smoke-Free Arizona Act banned smoking in public places except retail tobacco stores, veteran and fraternal clubs, hotel rooms designated as smoking rooms, and outdoor patios.		
Funds Expended	2,621,000	3,000,000
Year-End Fund Balance	930,100	930,100
Tobacco Tax and Health Care Fund - Health Education Account (HSA1308/A.R.S. § 36-772)		Non-Appropriated
<i>Source of Revenue:</i> The account receives 23¢ of each dollar deposited in the Tobacco Tax and Health Care Fund and 2¢ of each dollar in the Tobacco Products Tax Fund.		
<i>Purpose of Fund:</i> Monies are used for community-based education and evaluation, and other programs to discourage tobacco use among the general public, specifically targeting minors and culturally diverse populations. The monies from the Tobacco Products Tax Fund are used for the prevention and detection of the 4 leading causes of death.		
Funds Expended	20,109,000	23,600,000
Year-End Fund Balance	5,025,800	4,153,300
Tobacco Tax and Health Care Fund - Health Research Account (DSA2096/A.R.S. § 36-275, A.R.S. § 36-773)		Partially-Appropriated
<i>Source of Revenue:</i> The fund receives monies from the Health Research Account of the Tobacco Tax and Health Care Fund.		
<i>Purpose of Fund:</i> Monies are used for research into the prevention and treatment of tobacco-related disease and addiction. The FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) appropriated \$1,000,000 from the fund for Alzheimer's disease research. The FY 2018 General Appropriation Act continued this increase on a one-time basis.		
Appropriated Funds Expended	3,501,300	4,000,000
Non-Appropriated Funds Expended	3,890,900	9,078,000
Year-End Fund Balance	10,425,900	5,463,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
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Tobacco Tax and Health Care Fund - Medically Needy Account **Partially-Appropriated**
(HSA1306/A.R.S. § 36-774)

Source of Revenue: The account receives funding from the Medically Needy Account of the Tobacco Tax and Health Care Fund, which is managed by AHCCCS. All monies remaining unexpended at the end of the fiscal year revert to the AHCCCS Medically Needy Account. (See *Tobacco Tax Table in the AHCCCS section.*)

Purpose of Fund: Monies are used for a variety of health programs that are intended to increase primary care and mental health services for uninsured and low-income populations. This fund was transferred from DHS to AHCCCS on July 1, 2016 following the transfer of Behavioral Health Services to AHCCCS. DHS continues to receive appropriations from the fund for the Folic Acid Program and Renal Dental Care and Nutrition Supplements line items.

Appropriated Funds Expended	587,300	700,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	356,700	349,000

Vital Records Electronic Systems Fund (HSA3039/A.R.S. § 36-341.01) **Appropriated**

Source of Revenue: Fees collected for searches, copies of records, applications to file delayed records, requests for supplementary birth certificates, following adoption, legitimation, paternity determination, surgical alterations, and chromosomal counts, or amendments to existing records. DHS is authorized by A.R.S. § 36-341 to set vital records fees for individuals and counties that access the vital records electronic system. Total revenues are limited to \$4,530,000. Of the first \$4,000,000, 85% will be required into the Vital Records Electronic Systems Fund and 15% will be deposited into the General Fund. For any revenue above \$4,000,000, 40% will be deposited into the Vital Records Electronic Systems Fund and 60% will be deposited into the General Fund.

Purpose of Fund: To develop and operate a new vital records automated system.

Funds Expended	1,361,500	3,637,400
Year-End Fund Balance	3,552,300	2,140,500

Arizona Historical Society

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	50.9	50.9	50.9
Personal Services	1,172,900	1,205,500	1,205,500
Employee Related Expenditures	478,600	531,900	531,900
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	2,541,400
SPECIAL LINE ITEMS			
Field Services and Grants	66,000	66,000	65,700
Papago Park Museum	542,900	542,800	535,400
AGENCY TOTAL	2,723,100	3,179,800	3,142,500
FUND SOURCES			
General Fund	2,723,100	3,179,800	3,142,500
SUBTOTAL - Appropriated Funds	2,723,100	3,179,800	3,142,500
Other Non-Appropriated Funds	1,589,900	1,139,300	1,079,800
TOTAL - ALL SOURCES	4,313,000	4,319,100	4,222,300

AGENCY DESCRIPTION — The Arizona Historical Society acquires, preserves, maintains, and publicly exhibits archival and museum objects pertaining to the history of Arizona, the West, and the Indian tribes inhabiting the state. The Society's major museums are in Yuma, Flagstaff, Tucson, Phoenix, and Tempe (Papago Park).

Operating Budget

The Baseline includes \$2,541,400 and 40.4 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(29,600) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Field Services and Grants

The Baseline includes \$65,700 and a 0.4 FTE Position from the General Fund in FY 2019 for Field Services and Grants. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(300) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This line item funds contracts with certified county historical societies for services to be performed for the benefit of the state.

Papago Park Museum

The Baseline includes \$535,400 and 10.1 FTE Positions from the General Fund in FY 2019 for the Papago Park Museum. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This line item funds the operation and maintenance of the Papago Park Museum (Tempe).

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

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

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Exposition Museum Centennial Fund (HIA2650/A.R.S. § 41-827)		Non-Appropriated
Source of Revenue: Monies collected from issuance and renewals of the Centennial License Plates distributed to AHS from the Department of Transportation.		
Purpose of Fund: The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transfers all unexpended and unencumbered monies remaining in the Arizona Centennial Special Plate Fund established by A.R.S. § 28-2448 to the Mining, Mineral and Natural Resources Educational Museum Account in the Geological Survey Fund established by A.R.S. § 27-107. Chapter 128 prohibits the Historical Society from encumbering any of these Special Plate monies. Chapter 128 conditions the museum and funds transfer on monies being raised by July 1, 2018 to sufficiently refurbish and open the 1502 West Washington Street museum. Laws 2017, Chapter 221 removed these provisions and directed the Arizona Department of Administration to convey ownership of the property to the University of Arizona for nominal consideration by July 1, 2017.		
Funds Expended	305,400	0
Year-End Fund Balance	0	0
Federal Grants (HIA2000/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To be used in accordance with the requirements of each grant.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Permanent Arizona Historical Society Revolving Fund (HIA2900/A.R.S. § 14-826)		Non-Appropriated
Source of Revenue: Monies from the operation of gift shops, book shops, food service facilities, and charges for the use of or admission into any of the society's facilities.		
Purpose of Fund: For enhancing the programs of the society, or operating or improving its facilities.		
Funds Expended	685,800	547,300
Year-End Fund Balance	96,900	103,500
Preservation and Restoration Fund (HIA2125/A.R.S. § 41-825)		Non-Appropriated
Source of Revenue: Reproduction charges.		
Purpose of Fund: To preserve and restore historic photographs.		
Funds Expended	29,600	21,300
Year-End Fund Balance	32,400	46,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Private Fund (HIA9447/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Revenues are generated through memberships, unrestricted donations, and program revenue. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool.		
Purpose of Fund: For operating expenses.		
Funds Expended	531,400	558,300
Year-End Fund Balance	920,800	847,100
Trust Fund (HIA9450/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Monies held in trust for specific purposes. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool. Only interest earnings are expended.		
Purpose of Fund: For operating expenses.		
Funds Expended	37,700	12,400
Year-End Fund Balance	120,400	108,200

Prescott Historical Society of Arizona

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	254,700
Other Operating Expenditures	75,400	63,700	48,000
AGENCY TOTAL	824,500	840,200	824,500
FUND SOURCES			
General Fund	824,500	840,200	824,500
SUBTOTAL - Appropriated Funds	824,500	840,200	824,500
Other Non-Appropriated Funds	593,600	1,115,000	2,860,000
TOTAL - ALL SOURCES	1,418,100	1,955,200	3,684,500

AGENCY DESCRIPTION — The Prescott Historical Society preserves and maintains the Old Governor's Mansion, together with the other buildings and properties of the Sharlot Hall Museum located in Prescott. The Society is responsible for acquiring, preserving, and publicly exhibiting archival and museum objects pertaining to the history, geological, and anthropological life of Arizona and the West.

Operating Budget

* * *

The Baseline includes \$824,500 and 13 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(15,700) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Sharlot Hall Historical Society (PHA9505/A.R.S. § 41-831)		Non-Appropriated
Source of Revenue: Monies received from admissions, donations, memberships, interest, gift shop and rent. Funds are outside the control of the State Treasurer and by statute are held in trust for the society's use by the Society Treasurer.		
Purpose of Fund: To print publications and journals, as well as to pay for educational programming, archival and curatorial supplies and graphics.		
Funds Expended	593,600	1,115,000
Year-End Fund Balance	1,973,200	1,811,800

Arizona Department of Homeland Security

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Funds (HLA2000/A.R.S. § 41-4254)		Non-Appropriated
Source of Revenue: Grants received from the U.S. Department of Homeland Security.		
Purpose of Fund: To provide state agencies and local governments with funding to deter and mitigate acts of terrorism. Federal grant guidelines allow up to 5% of the grand total to be used for administrative costs.		
Funds Expended	22,430,300	20,188,200
Year-End Fund Balance*	(17,400)	0

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

Board of Homeopathic and Integrated Medicine Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	17,700
Professional and Outside Services	200	200	200
Travel - In State	1,300	1,300	1,300
Other Operating Expenditures	8,000	31,500	31,500
AGENCY TOTAL	65,500	89,000	87,300

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	65,500	89,000	87,300
SUBTOTAL - Other Appropriated Funds	65,500	89,000	87,300
SUBTOTAL - Appropriated Funds	65,500	89,000	87,300
TOTAL - ALL SOURCES	65,500	89,000	87,300

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 Baseline includes \$87,300 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,700) from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Homeopathic and Integrated Medicine Examiners' Fund (HEA2041/A.R.S. § 32-2906)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of homeopaths. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate homeopaths, and for board administration.		
Funds Expended	65,500	89,000
Year-End Fund Balance	13,700	1,200

Arizona Department of Housing

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	70,500
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	50,600
Equipment	8,200	1,800	1,300
AGENCY TOTAL	1,129,900	1,153,200	318,500
FUND SOURCES			
General Fund	811,400	830,000	0
<u>Other Appropriated Funds</u>			
Housing Trust Fund	318,500	323,200	318,500
SUBTOTAL - Other Appropriated Funds	318,500	323,200	318,500
SUBTOTAL - Appropriated Funds	1,129,900	1,153,200	318,500
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	114,131,400

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 Baseline includes \$318,500 and 3 FTE Positions from the Arizona Housing Trust Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove General Fund Appropriation

The Baseline includes a decrease of \$(811,400) and (17) FTE Positions from the General Fund in FY 2019. Laws 2017, Chapter 335 repeals 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 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(23,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. These amounts consist of:

	FY 2019
General Fund	\$(18,600)
Housing Trust Fund	(4,700)

(Please see the Technical Budget Assumptions section.)

* * *

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Consumer Recovery Fund (HDA3090/A.R.S. § 41-4041)		Non-Appropriated
Source of Revenue: Fees charged to dealers and brokers of manufactured homes, mobile homes, or factory-built buildings designed for residential use.		
Purpose of Fund: To provide consumer and license education in connection with the manufactured housing and factory-built building industry and to make payments on damage claims filed by consumers of these types of residential buildings. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Housing by Laws 2016, Chapter 128.		
Funds Expended	5,200	5,200
Year-End Fund Balance	561,900	667,800
DPS-FBI Fingerprint Fund (HDA2159/A.R.S. § 41-1750)		Non-Appropriated
Source of Revenue: Revenues include fees collected from fingerprint clearance cards.		
Purpose of Fund: Revenues are transferred to the Department of Public Safety (DPS) to process fingerprint clearance cards. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Housing by Laws 2016, Chapter 128.		
Funds Expended	5,300	5,300
Year-End Fund Balance	900	1,500
Federal Funds (HDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds for affordable housing programs.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the federal grants.		
Funds Expended	78,704,400	82,989,900
Year-End Fund Balance	5,134,000	3,871,500
Federal Grant - American Recovery and Reinvestment Act (ARRA) (HDA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department for the weatherization of homes, energy efficiency and usage reduction, and appliance rebates.		
Funds Expended	0	0
Year-End Fund Balance	631,300	631,300
Housing Program Fund (HDA2200/A.R.S. § 41-3957)		Non-Appropriated
Source of Revenue: Fees received from the following programs: private activity bond (underwriting and hearings), low-income tax credit (application, monitoring and reservation fees), fees charged from conferences and workshops, fees from the Section 8 project-based contract administration program, and administrative reimbursements from Federal Hardest Hit Funds.		
Purpose of Fund: To pay the costs of administering the programs from which the deposits are received and for other department programs. Additionally, at the Director's election, to transfer to any fund established by the Arizona Housing Finance Authority in connection with any bonds or certificates issued by the Arizona Housing Finance Authority.		
Funds Expended	4,925,000	9,033,100
Year-End Fund Balance	12,775,800	11,710,800
Housing Trust Fund (HDA2235/A.R.S. § 41-3955)		Partially-Appropriated
Source of Revenue: The Housing Trust Fund receives its \$2,500,000 annual unclaimed property deposit after the first \$2,000,000 in unclaimed property revenues are distributed to the Department of Health Services Seriously Mentally Ill Housing Trust Fund.		
Purpose of Fund: For expenses related to the provision of affordable housing opportunities to low and moderate income families. The appropriated portion pays for administration expenses, and may not exceed 10% of the Housing Trust monies. The non-appropriated portion of the fund is used for the operation, construction, or renovation of housing facilities for low-income households. The Legislature may transfer monies from the fund to the Housing Development Fund for use on housing projects around state prisons. <i>(See Housing Development Fund detail for additional information).</i>		
Appropriated Funds Expended	318,500	323,200
Non-Appropriated Funds Expended	8,776,400	13,441,100
Year-End Fund Balance	19,802,600	14,923,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA & ISA Fund (HDA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: 1) Federal Low Income Housing Energy Assistance Program (LIHEAP) funds, which are provided through an ISA with the Department of Economic Security; and 2) funds belonging to the Arizona Industrial Development Authority (IDA). New funds deposited in FY 2017 came from the entity's mortgage program fee income and were transferred out to the Arizona IDA before FY 2018. Laws 2016, Chapter 372 transferred all unexpended and unencumbered monies remaining in the ISA that are attributed to the Arizona Housing Finance Authority to the Office of Economic Opportunity.		
Purpose of Fund: To enable the department to administer a portion of the LIHEAP which provides direct weatherization and energy improvements to homes owned by low-income homeowners.		
Funds Expended	14,961,700	2,965,100
Year-End Fund Balance	300	0
Manufactured Housing Cash Bond Fund (HDA3722/A.R.S. § 41-4029)		Non-Appropriated
Source of Revenue: Cash deposits made by housing manufacturers and installers prior to the granting of an original license. Applicants must make a cash deposit for each branch location of their operation.		
Purpose of Fund: To compensate consumers in cases where a licensee fails to perform sales or installation agreements or repairs under warranty; and to make payment to the department if the licensee fails to pay any fees or costs owed. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Housing by Laws 2016, Chapter 128.		
Funds Expended	0	0
Year-End Fund Balance	523,900	524,400
Mobile Home Relocation Fund (HDA2237/A.R.S. § 33-1476.02)		Non-Appropriated
Source of Revenue: Assessments collected from mobile home owners who do not own the land upon which the mobile home is located and interest earnings. Once the fund balance reaches \$8,000,000, assessments will no longer be collected and the only revenue will be from interest. Assessment would resume when the fund balance at the end of a fiscal year is less than \$6,000,000.		
Purpose of Fund: To pay for relocations due to rental increases and to pay premiums and other costs of purchasing insurance coverage for tenant relocation costs due to a change in property use pursuant to A.R.S. § 33-1476.01. If such insurance is not available, or if the insurance costs exceed the amount available from the fund, the fund is used to make direct payments for tenant relocation costs. This fund was transferred from the Department of Fire, Building and Life Safety to the Department of Housing by Laws 2016, Chapter 128.		
Funds Expended	426,200	392,300
Year-End Fund Balance	7,967,000	7,699,300

Independent Redistricting Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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 Baseline 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 BASELINE
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	3,832,400
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	3,967,900	3,967,900
Equipment	582,400	10,300	10,300
AGENCY TOTAL	18,409,500	20,110,400	19,881,300

FUND SOURCES

Other Appropriated Funds

Administrative Fund	18,409,500	20,110,400	19,881,300
SUBTOTAL - Other Appropriated Funds	18,409,500	20,110,400	19,881,300
SUBTOTAL - Appropriated Funds	18,409,500	20,110,400	19,881,300
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	41,139,200	40,910,100

AGENCY DESCRIPTION — The Industrial Commission regulates the workers' compensation insurance industry. The commission is also responsible for child labor issues, occupational safety and health issues, wage claim dispute resolutions, licensing of private employment agencies and providing workers' compensation coverage for claimants of uninsured and self-insured employers. Payment of workers' compensation claims on insolvent insurers was transferred from the Special Fund to the Workers' Compensation Insurance Account of the Arizona Property and Casualty Insurance Guaranty Fund within the Department of Insurance effective July 1, 2015.

Operating Budget

The Baseline includes \$19,881,300 and 235.6 FTE Positions from the Administrative Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(229,100) from the Administrative Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as a General Appropriation Act provision, revert all monies remaining from the FY 2012 non-lapsing OSHA Review Board appropriation to the General Fund at the end of FY 2018. *(Please see OSHA*

Review Board Appropriation in Other Issues for more information.)

Other Issues

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 Baseline would revert any remaining monies from the FY 2012 appropriation to the General Fund at the end of FY 2018.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Administrative Fund (ICA2177/A.R.S. § 23-1081)		Appropriated
Source of Revenue: Annual tax on workers' compensation premiums that cannot exceed 3%.		
Purpose of Fund: For all expenses of the Industrial Commission in carrying out its powers and duties.		
Funds Expended	18,409,500	20,110,400
Year-End Fund Balance	10,652,000	11,547,200
Federal Grants (ICA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To enforce occupational safety and health standards in all industries in Arizona except businesses relating to mining and smelting, businesses located on Indian reservations and federal agencies.		
Funds Expended	2,877,400	3,179,900
Year-End Fund Balance	382,400	382,400
Revolving Fund (ICA2002/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges for claims education seminars and training materials, charges for medical fee schedules and other miscellaneous revenue.		
Purpose of Fund: To fund an annual seminar on workers' compensation for insurance carriers and self-insured employers; to print a medical fee schedule for workers' compensation; and to provide a holding account for money owed to employees by their employers for back wages.		
Funds Expended	145,500	145,000
Year-End Fund Balance	232,700	232,700
Special Fund (ICA2180/A.R.S. § 23-1065)		Non-Appropriated
Source of Revenue: Assessments on workers' compensation premiums, earnings on investments, rent proceeds, and reimbursement of the cost of benefits provided to injured employees of uninsured employers.		
Purpose of Fund: To provide medical benefits in excess of original policy limits on claims occurring prior to a 1973 law change requiring unlimited statutory medical benefits; to provide compensation benefits resulting from second injuries; to provide vocational rehabilitation benefits; and to provide benefits on claims against uninsured employers and insolvent insurance carriers.		
Funds Expended	15,388,300	17,703,900
Year-End Fund Balance	2,153,600	2,632,800

Department of Insurance

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	72.3	72.3	72.3
Personal Services	2,879,300	3,305,300	3,305,300
Employee Related Expenditures	1,131,600	1,520,500	1,448,600
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	707,400
Equipment	36,200	6,400	6,400
AGENCY TOTAL	5,073,000	5,878,300	5,806,400
FUND SOURCES			
General Fund	5,073,000	5,878,300	5,806,400
SUBTOTAL - Appropriated Funds	5,073,000	5,878,300	5,806,400
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	38,302,000

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 Baseline includes \$5,806,400 and 72.3 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(71,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

* * *

FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue to suspend the statutory requirement that fee revenues be between 95% and 110% of the department's appropriation for FY 2019.

Other Issues

Arizona Life and Disability Insurance Guaranty Fund

The Arizona Life and Disability Insurance Guaranty Fund (ALDIGF) is managed by the Department of Insurance and a 9-member Life and Disability Insurance Guaranty Fund Board (Board) and was created as a safeguard to meet the obligations of a licensed insurance company in the event that a licensed insurer fails. Monies in the fund come from an assessment levied on all other licensed insurers. In the event that one or more insurers are determined to be financially impaired or insolvent and can no longer meet its obligations to policyholders, monies in the ALDIGF are used to pay those obligations up to a certain maximum payout amount, determined by statute based on the type of insurance. The last assessment levied for 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Assessment Fund for Voluntary Plans Fund (IDA2316/A.R.S. § 20-2201)		Non-Appropriated
Source of Revenue: Assessments paid by insurance companies or reinsuring carriers authorized to sell liability insurance.		
Purpose of Fund: To provide for the administrative costs associated with finding liability insurance for classes of risk that are unable to obtain liability coverage. Monies are also used to administer the Small Employers Reinsurance Plan Board. The board ensures the accessibility of small group health insurance by requiring a reinsurance program to spread the risk of insuring small groups.		
Funds Expended	0	0
Year-End Fund Balance	294,300	294,300
Captive Insurance Regulatory and Supervision Fund (IDA2377/A.R.S. § 20-1098.18)		Non-Appropriated
Source of Revenue: License and renewal fees collected from individual captive insurers and corporations applying to do business as a captive insurer. A captive insurer is an enterprise with the authority to function as an independent insurance company, but is organized by a parent company with the express intent to provide the parent company's insurance.		
Purpose of Fund: To provide funding for the promotion of the state's captive insurance industry and related administrative costs. Up to \$100,000 may be used annually to cover the department's administrative costs.		
Funds Expended	270,100	260,900
Year-End Fund Balance	447,600	450,600
Federal Funds (IDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal monies from Affordable Care Act grants.		
Purpose of Fund: To implement the provisions of the Affordable Care Act, including the planning and implementation of a health insurance exchange and to aid in the review of health insurance premium rates.		
Funds Expended	208,600	223,300
Year-End Fund Balance	0	0
Financial Surveillance Fund (IDA2473/A.R.S. § 20-156)		Non-Appropriated
Source of Revenue: Assessments paid by domestic insurers, other than life and disability re-insurers, service companies, and mechanical reimbursement re-insurers.		
Purpose of Fund: To provide funds for the costs of financial analysts who conduct financial surveillance of domestic insurers in order to identify possible risks to financial stability.		
Funds Expended	398,400	468,700
Year-End Fund Balance	475,700	407,100
Health Care Appeals Fund (IDA2467/A.R.S. § 20-2540)		Non-Appropriated
Source of Revenue: One-time fee of \$200 and an annual fee of up to \$200 per health care insurance company.		
Purpose of Fund: To pay for start-up and ongoing costs related to selecting an independent review organization. The selected organization will conduct external independent reviews that involve issues of medical necessity.		
Funds Expended	335,000	324,700
Year-End Fund Balance	89,800	91,700

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA and ISA Fund (IDA2500/A.R.S. §35-142)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To pay for promotional materials in collaboration with the Department of Public Safety Arizona Automobile Theft Authority relating to vehicle theft prevention.		
Funds Expended	3,300	0
Year-End Fund Balance	1,100	1,100
Insurance Examiners' Revolving Fund (IDA2034/A.R.S. § 20-159)		Non-Appropriated
Source of Revenue: Payments made by insurance companies for costs of financial, rate, and market conduct examinations performed by contract examiners.		
Purpose of Fund: To provide funds for contract examiners' per diem compensation and funds to reimburse contract examiners for travel and living expenses, as approved by the Director of the Department of Insurance. Monies are also used to cover the department's related administrative costs.		
Funds Expended	3,609,700	4,530,500
Year-End Fund Balance	1,365,600	935,100
Life and Disability Insurance Guaranty Fund (IDA2154/A.R.S. § 20-683)		Non-Appropriated
Source of Revenue: Assessments on life and disability insurance companies and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.		
Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for life and disability insurance policies and annuity contracts. The fund also pays the administrative costs of the 9-member Life and Disability Insurance Guaranty Fund Board authorized by A.R.S. § 20-684. Monies are held in a depository designated by the Director of the Department of Insurance.		
Funds Expended	3,518,800	14,348,600
Year-End Fund Balance	27,387,100	17,638,500
Arizona Property and Casualty Insurance Guaranty Fund (IDA2114/A.R.S. § 20-662)		Non-Appropriated
Source of Revenue: Assessments on property and casualty insurance and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.		
Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for property and casualty insurance policies. The fund also pays the administrative costs of the 11-member Property and Casualty Insurance Guaranty Fund Board authorized by A.R.S. § 20-663. Monies are held in a depository designated by the Director of the Department of Insurance. Laws 2014, Chapter 186 created the Workers' Compensation Insurance Account within the Fund, and transferred the rights and obligations from the Industrial Commission to the Department of Insurance Guaranty Fund. The law also required the Industrial Commission to transfer \$222,848,200 to the Arizona Property and Casualty Insurance Guaranty Fund.		
Funds Expended	12,133,100	12,216,500
Year-End Fund Balance	233,916,400	223,499,900
Receivership Liquidation Fund (IDA3104/A.R.S. § 20-648)		Non-Appropriated
Source of Revenue: Consists of 10% of an insolvent insurer's statutory deposit with the State Treasurer authorized by A.R.S. § 20-213. Upon termination of a receivership, the court may award proceeds to the fund, up to the amount of the department's administrative costs.		
Purpose of Fund: To support the department's Receivership Division, which administers the liquidation of insurance companies to ensure maximum recovery of assets. The balance forward represents cash on hand. It does not include the state's unfunded liability for deposits being held as assurance against future insolvencies.		
Funds Expended	34,200	121,500
Year-End Fund Balance	203,700	109,400

Judiciary - Supreme Court

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	177.0	183.0	183.0
Personal Services	6,344,100	6,859,000	6,867,000
Employee Related Expenditures	2,182,500	2,476,400	2,279,000
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	4,136,000
Equipment	68,800	0	0
OPERATING SUBTOTAL	12,270,100	13,990,200	13,800,800
SPECIAL LINE ITEMS			
State Aid	4,167,700	5,671,400	5,648,500
County Reimbursements	187,900	187,900	187,900
Automation	15,648,300	20,063,600	19,977,700
WAAS Upgrade	948,700	0	0
State Foster Care Review Board	3,177,500	3,205,000	3,151,800
Court Appointed Special Advocate	2,799,700	3,267,800	3,262,900
Model Court	437,300	439,500	437,600
Domestic Relations	610,800	625,600	613,400
Judicial Nominations and Performance Review	408,600	416,300	409,100
Commission on Judicial Conduct	495,500	508,500	497,800
Courthouse Security	0	750,000	750,000
Felony Pretrial Intervention Program	250,000	0	0
AGENCY TOTAL	41,402,100	49,125,800	48,737,500
FUND SOURCES			
General Fund	19,136,700	18,812,000	18,628,700
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	219,000	493,600	488,900
Court Appointed Special Advocate Fund	2,876,700	3,348,500	3,343,200
Criminal Justice Enhancement Fund	3,332,500	4,399,600	4,365,200
Defensive Driving School Fund	3,046,600	4,205,900	4,198,500
Health Services Lottery Fund	250,000	0	0
Judicial Collection Enhancement Fund	10,408,400	14,784,100	14,767,900
Legislative, Executive, and Judicial Public Buildings Land Fund	0	137,000	0
State Aid to the Courts Fund	2,132,200	2,945,100	2,945,100
SUBTOTAL - Other Appropriated Funds	22,265,400	30,313,800	30,108,800
SUBTOTAL - Appropriated Funds	41,402,100	49,125,800	48,737,500
Other Non-Appropriated Funds	19,248,300	23,283,100	23,283,100
TOTAL - ALL SOURCES	60,650,400	72,408,900	72,020,600

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 Baseline includes \$13,800,800 and 108.7 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
General Fund	\$9,974,000
Confidential Intermediary and Fiduciary Fund	488,900
Criminal Justice Enhancement Fund (CJEF)	7,000
Defensive Driving School Fund	706,200
Judicial Collection Enhancement Fund (JCEF)	2,624,700

FY 2019 adjustments are as follows:

Judicial Salary Increase

The Baseline 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 is 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 becomes effective January 1, 2018.

Risk Management Fund Shift

The Baseline 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 FY 2019 Baseline 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.)*

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(199,700) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(191,000)
Confidential Intermediary and Fiduciary Fund	(4,700)
Defensive Driving School Fund	(1,800)
JCEF	(2,200)

(Please see the Technical Budget Assumptions section.)

State Aid

The Baseline includes \$5,648,500 and 3.3 FTE Positions in FY 2019 for State Aid. These amounts consist of:

CJEF	2,703,400
State Aid to the Courts Fund	2,945,100

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(22,900) from CJEF in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

The State Aid line item provides state aid to counties for the payment of judges pro tempore salaries, and for projects designed to improve the processing of criminal cases in the Superior Court and Justice Courts. The State Aid to the Courts Fund receives: 1) 40.97% of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and 2) a portion of the monies collected by the Supreme Court and the Court of Appeals.

The AOC distributes the monies appropriated from court fines and collections to the Superior Court and the Justice Courts based on a composite index formula using Superior Court felony filings and county population. Monies appropriated from the State Aid to the Courts Fund in the State Aid line item are distributed to all counties.

County Reimbursements

The Baseline includes \$187,900 from the General Fund in FY 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 Baseline includes \$19,977,700 and 13 FTE Positions in FY 2019 for Automation. These amounts consist of:

General Fund	3,357,100
Court Appointed Special Advocate (CASA) Fund	80,300
CJEF	1,654,800
Defensive Driving School Fund	3,492,300
JCEF	11,393,200

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(85,900) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(54,400)
Court Appointed Special Advocate (CASA) Fund	(400)
CJEF	(11,500)
Defensive Driving School Fund	(5,600)
JCEF	(14,000)

The Automation line item provides funding for court automation projects throughout the state. The budget includes monies from other Supreme Court and Superior Court line items in the Automation line item to allow for the centralization of Judicial automation expenditures. Automation costs are to be solely funded from the Automation line item. As required by a General Appropriation Act footnote, any additional monies expended from other line items for automation projects are to be transferred to the Automation line item prior to expenditure.

State Foster Care Review Board

The Baseline includes \$3,151,800 and 40 FTE Positions from the General Fund in FY 2019 for the State Foster Care Review Board. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(53,200) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$3,262,900 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2019 for CASA. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(4,900) from the CASA Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$437,600 from the General Fund in FY 2019 for Model Court. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$613,400 and 4.9 FTE Positions from the General Fund in FY 2019 for Domestic Relations. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(12,200) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

The Domestic Relations line item provides coordination and technical support for groups formed to develop and review policies and programs related to domestic relations and child support.

Judicial Nominations and Performance Review

The Baseline includes \$409,100 and 3.6 FTE Positions from the General Fund in FY 2019 for Judicial Nominations and Performance Review. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,200) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This line item funds administrative costs to oversee the nominations for the Supreme Court, the Court of Appeals, and the Superior Court in Maricopa, Pima, and Pinal Counties, as well as evaluating the performance of all merit retention justices and judges. The results of the performance evaluations are provided to the voters before each retention election.

Commission on Judicial Conduct

The Baseline includes \$497,800 and 4 FTE Positions from the General Fund in FY 2019 for Commission on Judicial Conduct. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(10,700) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

Courthouse Security

The Baseline 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 Baseline continues this funding in FY 2019.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Included in the operating lump sum appropriation for the Supreme Court is \$1,000 for the purchase of mementos and items for visiting officials.

Of the \$187,900 appropriated for County Reimbursements, State Grand Jury is limited to \$97,900 and Capital Postconviction Relief is limited to \$90,000.

On or before September 1, 2018, the Supreme Court shall report to the Joint Legislative Budget Committee on current and future automation projects coordinated by the Administrative Office of the Courts. The report shall include a list of court automation projects receiving or anticipated to receive state monies in the current or next 2 fiscal years as well as a description of each project, the number of FTE Positions, the entities involved and the goals and anticipated results for each automation project. The report shall be submitted in one summary document. The report shall indicate each project's total multiyear cost by fund source and budget line item, including any prior-year, current-year and future-year expenditures.

Automation expenses of the Judiciary shall be funded only from the Automation line item. Monies in the operating lump sum appropriation or other line items intended for automation purposes shall be transferred to the Automation line item before expenditure.

Other Issues

Fund Transfers

The Baseline continues the FY 2018 Judiciary fund transfers in FY 2019 as outlined in the 3-year budget plan associated with the FY 2018 budget. As a result, the budget includes \$2,600,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2019. The Superior Court share of these fund transfers in FY 2018 was \$2,100,000 and the Supreme Court share was \$500,000. The Baseline does not identify fund sources for the transfer; the Legislature will determine the specific fund sources for the transfers in the 2018 Legislative Session.

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	125,000
Total	\$ 186,100
Court of Appeals	
General Fund	\$ 27,800
Superior Court	
General Fund	\$ 50,800
Other Fund	21,500
County Funding	1,408,900 ^{1/}
Total	\$1,481,200

^{1/} This amount represents the statutorily-required county payment for probation risk management charges.

As part of their FY 2018 budget, the Executive proposed reducing the 3 agencies' FY 2017 non-probation General Fund charge by \$(276,700) as outlined below.

Supreme Court	\$(198,100)
Court of Appeals	(27,800)
Superior Court	(50,800)

However, the FY 2017 Judiciary General Fund charge only totaled \$139,700. As a result, the budget took the \$(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.)

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Alternative Dispute Resolution Fund (SPA3245/A.R.S. § 12-135)		Non-Appropriated
Source of Revenue: The fund consists of 0.35% of notary bond fees, 0.35% of fee collections on civil filings in the Superior Court, and 2.42% of civil filings in Justice of the Peace Courts.		
Purpose of Fund: To supplement local courts' funding for alternative dispute resolution programs.		
Funds Expended	221,600	252,300
Year-End Fund Balance	224,800	5,600
Certified Reporters Fund (SPA2440/A.R.S. § 32-4007)		Non-Appropriated
Source of Revenue: Fees, costs and penalties relating to reporter certification.		
Purpose of Fund: For reporter certification.		
Funds Expended	102,700	106,200
Year-End Fund Balance	72,700	136,800
Confidential Intermediary and Fiduciary Fund (SPA2276/A.R.S. § 8-135)		Appropriated
Source of Revenue: A portion of Superior Court fees; fees received by state and local registrars for certified copies of birth certificates; and fees collected through fiduciary registration with the Supreme Court.		
Purpose of Fund: To train and certify confidential intermediaries, who facilitate contact between adoptees/adoptive parents and birth parents while protecting court and agency records. Monies are also used to train and certify private fiduciaries, who serve as court appointed guardians or representatives, and to establish the Sibling Information Exchange Program, which facilitates contact between a former dependent child of biological parents, adoptive parents, guardians, and the child's sibling or siblings.		
Funds Expended	219,000	493,600
Year-End Fund Balance	622,900	478,800
Court Appointed Special Advocate Fund (SPA2275/A.R.S. § 8-524)		Appropriated
Source of Revenue: Revenues consist of 30% of the state lottery unclaimed prize monies.		
Purpose of Fund: For operating the Court Appointed Special Advocate program, which trains volunteers to advocate for abused and neglected children in Juvenile Court proceedings.		
Funds Expended	2,876,700	3,348,500
Year-End Fund Balance	4,395,000	4,423,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Criminal Justice Enhancement Fund (SPA2075/A.R.S. § 41-2401)		Appropriated
Source of Revenue: Includes allocations of the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: 9.35% of CJEF monies allocated to the courts are used to reduce juvenile crime, 6.02% is used to enhance the court's ability to process criminal and delinquency cases and salaries of Superior Court judges, and 2.13% is used to provide drug treatment services to adult probationers. The portions of the fund dedicated to juvenile crime reduction and drug treatment are included in the Superior Court's budget, while the case processing portion is part of the Supreme Court's budget.		
Funds Expended	3,332,500	4,399,600
Year-End Fund Balance	6,583,800	3,270,000
Defensive Driving School Fund (SPA2247/A.R.S. § 28-3398)		Appropriated
Source of Revenue: A fee, not to exceed \$15, imposed on each person who attends a defensive driving school, and \$500 initial certification and \$50-\$250 recertification fees paid by defensive driving schools. The fees are set by the Supreme Court.		
Purpose of Fund: To monitor defensive driving schools for compliance with claims and court policy, to supervise their use by the courts in Arizona, and to expedite the processing of highway traffic offenses. The Administrative Office of the Courts (AOC) has also used these monies to fund court automation projects throughout the state. In FY 2017, the AOC spent approximately \$2,506,700 for court automation projects.		
Funds Expended	3,046,600	4,205,900
Year-End Fund Balance	1,412,300	698,300
Drug Treatment and Education Fund (SPA2277/A.R.S. § 13-901.02)		Non-Appropriated
Source of Revenue: The fund receives 7% of tax revenue collected on spirituous liquors and 18% of tax revenue collected on vinous and malt liquor. Of this amount, 50% is allocated to this fund and 50% is allocated to the Arizona Parents Commission on Drug Education and Prevention.		
Purpose of Fund: To place persons in drug education and treatment programs. Such monies are allocated to Superior Court probation departments according to a formula based on probation caseloads.		
Funds Expended	369,700	386,000
Year-End Fund Balance	0	0
Grants and Special Revenue (SPA2084/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies provided from various sources, private and public, for specific programs and projects.		
Purpose of Fund: To expend grants as required by the contribution.		
Funds Expended	17,511,600	21,295,500
Year-End Fund Balance	19,607,400	14,222,000
Health Services Lottery Fund (SPA9999/A.R.S. § 36-108.01)		Appropriated
Source of Revenue: State Lottery monies.		
Purpose of Fund: To fund teenage pregnancy prevention programs, the Health Start Program, and the federal Women, Infants and Children (WIC) food program. Laws 2016, Chapter 116 appropriated \$250,000 to provide supplemental funding for a felony pretrial intervention program within the Maricopa County Attorney's Office that allows individuals who are charged with felonies to avoid prosecution by successfully completing a treatment program tailored to their individual needs.		
Funds Expended	250,000	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Judicial Collection Enhancement Fund (SPA2246/A.R.S. § 12-113)		Appropriated
Source of Revenue: Electronic case filing and access fees; 27.78% of Supreme Court fees, 18.74% of Superior Court fees, 19.42% of Court of Appeals fees, 19.18% of Municipal Court fees, and 15.74% to 17.27% of Justice of the Peace fees; time payment fees assessed for late court payments; fees paid for court-ordered diversion programs, and a \$20 probation surcharge on fines, penalties, and forfeitures imposed by the courts for criminal offenses and civil motor vehicle statute violations. Maricopa County retains any probation surcharge imposed in its county.		
Purpose of Fund: To train court personnel, improve and enhance the court's ability to collect and manage monies assessed or received by the court, to fund court automation projects likely to improve case processing or the administration of justice, and for probation services. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) appropriated \$750,000 in one-time monies for courthouse security.		
Funds Expended	10,408,400	14,784,100
Year-End Fund Balance	3,976,900	4,414,500
Juvenile Probation Services Fund (SPA2193/A.R.S. § 8-322)		Non-Appropriated
Source of Revenue: Monies appropriated to Juvenile Probation Services - Treatment Services and Juvenile Diversion Consequences and allocated by the Administrative Office of the Courts.		
Purpose of Fund: To fund programs for juvenile probationers required as conditions of diversion. These programs are intended to reduce the number of repetitive juvenile offenders and provide services, including treatment, testing, independent living programs, residential foster and shelter care, and for juveniles referred to the juvenile court for incorrigibility or delinquency offenses. Expenditures from this fund are not displayed to avoid double counting General Fund monies.		
Funds Expended	0	0
Year-End Fund Balance	5,524,000	1,861,300
Legislative, Executive, and Judicial Public Buildings Land Fund (SPA3127/A.R.S. § 37-525)		Appropriated
Source of Revenue: State trust land lease revenues.		
Purpose of Fund: To support state Legislative, Executive, and Judicial buildings. The FY 2018 General Appropriation Act appropriated \$137,000 to offset a portion of the one-time General Fund reduction to the Supreme Court's operating budget.		
Funds Expended	0	137,000
Year-End Fund Balance	0	0
Arizona Lengthy Trial Fund (SPA2382/A.R.S. § 21-222)		Non-Appropriated
Source of Revenue: The fund consists of fees established by the Supreme Court on court filings paid to the clerk of the Superior Court.		
Purpose of Fund: To pay juror expenses in cases that last longer than 5 days. Monies in the fund are used to reimburse counties for these juror costs. Statute specifies that not more than 3% of the fund is to be used on administration of the fund.		
Funds Expended	485,100	626,000
Year-End Fund Balance	119,400	100
Public Defender Training Fund (SPA3013/A.R.S. § 12-117)		Non-Appropriated
Source of Revenue: Two dollars of the \$20 surcharge on each person paying a court order penalty, fine, or sanction on a time-payment basis.		
Purpose of Fund: For training of public defenders. Allocation of monies is made to each county Public Defender Office in proportion to the number of felony cases assigned to that office in the last fiscal year.		
Funds Expended	557,600	617,100
Year-End Fund Balance	171,100	107,700
State Aid to the Courts Fund (SPA2446/A.R.S. § 12-102.02)		Appropriated
Source of Revenue: Legislative appropriations, a portion of court filing fees, and a portion of fees, fines, penalties and forfeitures collected on criminal offenses and civil motor vehicle violations.		
Purpose of Fund: To provide state aid to the Superior Court, including the clerk of the Superior Court, and Justice Courts for the processing of criminal cases. Monies are distributed to each county based on a formula using Superior Court felony filings and county population.		
Funds Expended	2,132,200	2,945,100
Year-End Fund Balance	204,800	691,900

Judiciary - Court of Appeals

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
PROGRAM BUDGET			
Division I	9,876,400	10,258,000	10,157,400
Division II	4,331,500	4,465,000	4,424,000
AGENCY TOTAL	14,207,900	14,723,000	14,581,400
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	136.8	136.8	136.8
Personal Services	9,487,000	10,155,000	10,178,000
Employee Related Expenditures	3,157,800	3,600,800	3,436,200
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	724,000
Equipment	110,700	0	0
AGENCY TOTAL	14,207,900	14,723,000	14,581,400
FUND SOURCES			
General Fund	14,207,900	14,723,000	14,581,400
SUBTOTAL - Appropriated Funds	14,207,900	14,723,000	14,581,400
TOTAL - ALL SOURCES	14,207,900	14,723,000	14,581,400

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 Baseline includes \$14,581,400 and 136.8 FTE Positions from the General Fund in FY 2019 for the operating budget. These amounts include \$10,157,400 and 98.3 FTE Positions for Division I and \$4,424,000 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 is 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 becomes effective January 1, 2018. The FY 2019 increase is split with Division I receiving \$21,800 and Division II receiving \$9,300.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(172,700) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Operating Lump Sum by Subprogram

FOOTNOTES

Standard Footnotes

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.

Judiciary - Superior Court

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5
Personal Services	2,368,200	2,363,400	2,363,400
Employee Related Expenditures	846,200	887,600	887,600
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	818,000
Equipment	163,900	0	0
OPERATING SUBTOTAL	4,169,000	4,193,800	4,193,800
SPECIAL LINE ITEMS			
Centralized Service Payments	2,904,300	3,458,000	3,458,000
Judges Compensation	8,071,800	8,367,300	8,423,500
Adult Standard Probation	17,063,400	17,666,600	17,666,600
Adult Intensive Probation	10,205,000	10,565,100	10,565,100
Community Punishment	1,316,300	2,310,300	2,310,300
Interstate Compact	427,500	427,500	427,500
Drug Court	993,600	993,600	993,600
Drug Treatment Alternative to Prison	0	250,000	0
Juvenile Standard Probation	3,373,200	3,610,400	3,610,400
Juvenile Intensive Probation	5,285,000	5,352,000	5,352,000
Juvenile Treatment Services	19,960,900	19,960,900	19,960,900
Juvenile Family Counseling	500,000	500,000	500,000
Juvenile Diversion Consequences	8,157,800	8,157,800	8,157,800
Juvenile Crime Reduction	598,200	3,308,000	3,308,000
Dependency Surge	1,229,600	0	0
Special Water Master	144,400	190,700	190,700
Court-Ordered Removals	0	75,000	315,000
AGENCY TOTAL	84,400,000	89,387,000	89,433,200
FUND SOURCES			
General Fund	77,407,400	77,183,700	77,479,900
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	1,705,600	5,435,200	5,435,200
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	11,953,300
SUBTOTAL - Appropriated Funds	84,400,000	89,387,000	89,433,200
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	94,634,400

AGENCY DESCRIPTION — The Superior Court, which has a division in every county, is the state's only general jurisdiction court. Superior Court judges hear all types of cases except small claims, minor offenses, or violations of city codes and ordinances. In addition, the responsibility for supervising adults and juveniles who have been placed on probation resides in the Superior Court.

Operating Budget

The Baseline includes \$4,193,800 and 55.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$3,860,800
Criminal Justice Enhancement Fund (CJEF)	317,100
Drug Treatment and Education Fund	2,700
Judicial Collection Enhancement Fund (JCEF)	13,200

These amounts are unchanged from FY 2018.

Background – These monies represent the administrative costs incurred by the Administrative Office of the Courts (AOC) while overseeing the various line items of the Superior Court budget. In prior years, these monies were included in the individual line items. In order to increase the clarity of expenditure sourcing, these monies have been shifted to a centralized operating budget leaving the monies passed through to the county Superior Courts in their respective line items.

Centralized Service Payments

The Baseline includes \$3,458,000 in FY 2019 for centralized service payments. This amount consists of:

General Fund	3,008,100
JCEF	449,900

These amounts are unchanged from FY 2018.

Background – In order to facilitate payment for services that are offered by all Superior Courts, AOC pays for various services centrally. These services include training, motor vehicle payments, Corrections Officer Retirement Plan Review Board funding, Literacy Education and Resource Network program funding (an online G.E.D. preparation program), research, operational reviews and GPS vendor payments.

Judges' Compensation

The Baseline includes \$8,423,500 and 82 FTE Positions from the General Fund in FY 2019 for Judges' Compensation. FY 2019 adjustments are as follows:

Judicial Salary Increase

The Baseline 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 is 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 becomes effective January 1, 2018.

Background – This line item provides funding for the state's 50% share of the salary and Elected Officials Retirement Plan costs for Superior Court Judges. The line item also funds 100% of the costs of Superior Court Judges that elect state benefits, although some opt to participate in county programs. In the latter circumstance, the county pays 100% of the cost.

A.R.S. § 12-128 requires the state General Fund to pay for one-half of Superior Court Judges' salaries, except for Maricopa County judges. Maricopa County is responsible for 100% of the salary and benefits of its Superior Court Judges. Pursuant to A.R.S. § 12-121, each county receives one judge for the first 30,000 of population. Additional judges may be created for every additional 30,000 person increment upon approval by the Governor.

Probation Programs

The state and non-Maricopa Counties share the costs of probation. 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 Baseline includes \$17,666,600 in FY 2019 for Adult Standard Probation. This amount consists of:

General Fund	13,892,500
JCEF	3,774,100

These amounts are unchanged from FY 2018.

Background – This line item provides funding for community supervision services for adults placed on standard probation by the Adult Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 12-251A, an adult probation officer shall not supervise more than 65 adults on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Adult Intensive Probation

The Baseline includes \$10,565,100 in FY 2019 for Adult Intensive Probation. This amount consists of:

General Fund	9,029,900
JCEF	1,535,200

These amounts are unchanged from FY 2018.

Background – This line item provides funding for a sentencing alternative intended to divert serious, non-violent offenders from prison. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 13-916, 1 team shall not supervise more than 25 intensive probationers at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Community Punishment

The Baseline includes \$2,310,300 in FY 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 Baseline includes \$427,500 in FY 2019 for Interstate Compact. This amount consists of:

General Fund	334,700
JCEF	92,800

These amounts are unchanged from FY 2018.

Background – This line item provides funding for supervision and intervention to probationers transferring to Arizona and monitors the supervision of probationers transferred to other states from Arizona.

As required by a General Appropriation Act footnote, the monies in the Interstate Compact line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Drug Court

The Baseline includes \$993,600 from the General Fund in FY 2019 for Drug Court programs. This amount is unchanged from FY 2018.

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 Baseline 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 Baseline 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.

In FY 2018, \$2,950,000 in one-time Health Services Lottery Fund monies were appropriated for 3 separate programs in 2 different agencies, including \$250,000 for the Drug Treatment Alternative to Prison program in Pima County. The Fund is only expected to have a one-time balance of

\$1,244,200 in FY 2019 assuming that there is no continuation of one-time funding.

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.

The FY 2015 budget included \$250,000 from the General Fund for the same program. These monies were non-lapsing and were expended by the end of FY 2016.

Juvenile Standard Probation

The Baseline includes \$3,610,400 in FY 2019 for Juvenile Standard Probation. This amount consists of:

General Fund	3,460,400
JCEF	150,000

These amounts are unchanged from FY 2018.

Background – This line item provides funding for community supervision services for juveniles placed on standard probation by the Juvenile Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-203B, a juvenile probation officer shall not supervise more than an average of 35 juveniles on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Intensive Probation

The Baseline includes \$5,352,000 from the General Fund in FY 2019 for Juvenile Intensive Probation. This amount is unchanged from FY 2018.

Background – This line item provides funding for a sentencing alternative to divert serious, non-violent juvenile offenders from incarceration or residential care and to provide intensive supervision for high-risk offenders already on probation. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-353B, 1 JIPS team shall not supervise more than an average of 25 juveniles on intensive probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Treatment Services

The Baseline includes \$19,960,900 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 Baseline 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 Baseline 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 10,436 juveniles diverted from formal court proceedings in FY 2016. 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 Baseline includes \$3,308,000 from CJEF in FY 2019 for Juvenile Crime Reduction. This amount is unchanged from FY 2018.

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 Baseline includes \$190,700 from the General Fund in FY 2019 for the Special Water Master line item. This amount is unchanged from FY 2018.

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	122,500	122,500	122,500
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	21,900	21,900	21,900
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 Baseline 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 Baseline 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 includes 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Of the 137.5 FTE Positions, 82 FTE Positions represent Superior Court judges in counties with a population of less than 2,000,000 persons. One-half of those judges' salaries are provided by state General Fund

appropriations pursuant to A.R.S. § 12-128. This FTE Position clarification does not limit the counties' ability to add judges pursuant to A.R.S. § 12-121.

All 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.

All centralized service payments made by the Administrative Office of the Courts on behalf of counties shall be funded only from the Centralized Service Payments line item. Centralized service payments include only training, motor vehicle payments, CORP review board funding, LEARN funding, research, operational reviews and GPS vendor payments. This footnote does not apply to treatment or counseling services payments made from the Juvenile Treatment Services and Juvenile Diversion Consequences line items. Monies in the operating lump sum appropriation or other line items intended for centralized service payments shall be transferred to the Centralized Service Payments line item before expenditure.

All monies in the Judges' Compensation line item shall be used to pay for the 50% state share of Superior Court judges' salaries, Elected Officials' Retirement Plan costs and related state benefit costs for judges in counties with a population of less than 2 million persons. Monies in the operating lump sum appropriation or other line items intended for this purpose shall be transferred to the Judges' Compensation line item before expenditure.

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.

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.

Receipt of state probation monies by the counties is contingent on the county maintenance of FY 2004 expenditure levels for each probation program. State probation monies are not intended to supplant county dollars for probation programs.

On or before November 1, 2018, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee 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 expended from each revenue source of each account.
3. The amount of monies from the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items that the office does not distribute as direct aid to counties. The report shall delineate how the office spends these monies that are not distributed as direct aid to counties.

On or before February 1, 2019, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee on county-approved salary adjustments provided to probation officers since the last report on September 30, 2017. 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.

Other Issues

Fund Transfers

The Baseline continues the FY 2018 Judiciary fund transfers in FY 2019 as outlined in the 3-year budget plan associated with the FY 2018 budget. As a result, the budget includes \$2,600,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2019. The Superior Court share of these fund transfers in FY 2018 was \$2,100,000 and the Supreme Court share was \$500,000. The Baseline does not identify fund sources for the transfer; the Legislature will determine the specific fund sources for the transfers in the 2018 Legislative Session.

Probation Caseloads

The Baseline includes \$32,069,500 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 2* 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 3* 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.

Table 2

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	344.4	59.1	350.1	33.1	786.7
Total Filled Positions	581.9	158.6	395.9	72.8	1,209.2
Probation Line Item Expenditures					
Amount Distributed to Counties	\$17,490,900	\$10,205,000	\$3,373,200	\$5,285,000	\$36,354,100
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 ^{1/}	\$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	5,533,200	0	405,900	0	5,939,100
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 3

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	457	429	398	369	339
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Community Punishment Program Fines Fund (SPA2119/A.R.S. § 13-821)		Non-Appropriated
Source of Revenue: Discretionary fines imposed by the courts on drug offenders.		
Purpose of Fund: To provide drug treatment services to adult probationers through the Community Punishment Program.		
Funds Expended	14,100	117,500
Year-End Fund Balance	199,400	100,200
Criminal Justice Enhancement Fund (SPA2075/A.R.S. § 41-2401)		Appropriated
Source of Revenue: Includes allocations of the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: 9.35% of CJEF monies allocated to the courts are used to reduce juvenile crime, 6.02% is used to enhance the court's ability to process criminal and delinquency cases and salaries of Superior Court judges, and 2.13% is used to provide drug treatment services to adult probationers. The portions of the fund dedicated to juvenile crime reduction and drug treatment are included in the Superior Court's budget, while the case processing portion is part of the Supreme Court's budget.		
Funds Expended	1,705,600	5,435,200
Year-End Fund Balance	6,583,800	3,270,000
Drug and Gang Enforcement Fund (SPA2074/A.R.S. § 41-2402)		Non-Appropriated
Source of Revenue: Federal grant monies passed through the Arizona Criminal Justice Commission's Drug and Gang Enforcement Account.		
Purpose of Fund: To fund programs that enhance the ability of the courts to process drug offenses and related cases.		
Funds Expended	1,049,900	1,058,200
Year-End Fund Balance	8,000	7,700
Drug Treatment and Education Fund (SPA2277/A.R.S. § 13-901.02)		Partially-Appropriated
Source of Revenue: The fund receives 7% of tax revenue collected on spirituous liquors and 18% of tax revenue collected on vinous and malt liquor. Of this amount, 50% is allocated to this fund and 50% is allocated to the Arizona Parents Commission on Drug Education and Prevention.		
Purpose of Fund: To place persons in drug education and treatment programs. Such monies are allocated to Superior Court probation departments according to a formula based on probation caseloads. Most of the appropriated funds are distributed to the Community Punishment program.		
Appropriated Funds Expended	502,400	502,900
Non-Appropriated Funds Expended	3,994,700	4,025,500
Year-End Fund Balance	3,164,800	3,332,500
Grants and Special Revenue (SPA2084/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies provided from various sources, private and public, for specific programs and projects.		
Purpose of Fund: To expend grants as required by the contribution.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Health Services Lottery Monies Fund (SPA9999/A.R.S. § 36-108.01)		Appropriated
Source of Revenue: State Lottery monies.		
Purpose of Fund: To fund teenage pregnancy prevention programs, the Health Start Program, and the federal Women, Infants and Children (WIC) food program. Laws 2017, Chapter 303 appropriated \$250,000 to the Administrative Office of the Courts (AOC) for a drug treatment alternative to prison program in Pima County.		
Funds Expended	0	250,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Judicial Collection Enhancement Fund (SPA2246/A.R.S. § 12-113)		Appropriated
<p>Source of Revenue: Electronic case filing and access fees; 27.78% of Supreme Court fees, 18.74% of Superior Court fees, 19.42% of Court of Appeals fees, 19.18% of Municipal Court fees, and 15.74% to 17.27% of Justice of the Peace fees; time payment fees assessed for late court payments; fees paid for court-ordered diversion programs, and a \$20 probation surcharge on fines, penalties, and forfeitures imposed by the courts for criminal offenses and civil motor vehicle statute violations. Maricopa County retains any probation surcharge imposed in its county.</p> <p>Purpose of Fund: To train court personnel, improve and enhance the court's ability to collect and manage monies assessed or received by the court, to fund court automation projects likely to improve case processing or the administration of justice, and for probation services. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) appropriated \$750,000 in one-time monies for courthouse security.</p>		
Funds Expended	4,784,600	6,015,200
Year-End Fund Balance	3,976,900	4,414,500
Juvenile Probation Services Fund (SPA2193/A.R.S. § 8-322)		Non-Appropriated
<p>Source of Revenue: Monies appropriated to Juvenile Probation Services - Treatment Services and Juvenile Diversion Consequences and allocated by the Administrative Office of the Courts.</p> <p>Purpose of Fund: To fund programs for juvenile probationers required as conditions of diversion. These programs are intended to reduce the number of repetitive juvenile offenders and provide services, including treatment, testing, independent living programs, residential foster and shelter care, and for juveniles referred to the juvenile court for incorrigibility or delinquency offenses. Expenditures from this fund are not displayed to avoid double counting General Fund monies.</p>		
Funds Expended	0	0
Year-End Fund Balance	5,524,000	1,861,300

Department of Juvenile Corrections

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	20,057,900	19,091,100	19,091,100
Employee Related Expenditures	11,034,100	10,837,200	10,178,800
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	4,471,100
Equipment	516,700	642,500	642,500
AGENCY TOTAL	37,843,000	36,204,900	35,546,500
FUND SOURCES			
General Fund	23,013,900	19,549,800	19,155,700
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	530,000	531,300	531,300
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	3,011,300
State Education Fund for Committed Youth	1,036,800	1,591,200	1,588,200
SUBTOTAL - Other Appropriated Funds	14,829,100	16,655,100	16,390,800
SUBTOTAL - Appropriated Funds	37,843,000	36,204,900	35,546,500
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	36,718,700

AGENCY DESCRIPTION — The Department of Juvenile Corrections (DJC) is responsible for the care and treatment of youth offenders adjudicated to be delinquent and remanded to the custody of the department. DJC has jurisdiction over youth until they are released from custody or reach age 18.

Operating Budget

The Baseline includes \$35,546,500 and 738.5 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$19,155,700
Criminal Justice Enhancement Fund (CJEF)	531,300
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	3,011,300
State Education Fund for Committed Youth	1,588,200

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(658,400) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(394,100)
State Charitable, Penal and Reformatory Institutions Land Fund	(261,300)
State Education Fund for Committed Youth	(3,000)

(Please see the Technical Budget Assumptions section.)

* * *

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the Department of Juvenile Corrections, in compliance with Section 25 of the Enabling Act and the Constitution of Arizona, to be used for the support of state juvenile institutions and reformatories.

STATUTORY CHANGES

The Baseline would, as session law, continue to require counties to pay their proportional share of \$11,260,000 according to their population in the 2010 decennial census for cost sharing of DJC.

Other Issues

Local Cost Sharing

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2018 Criminal Justice BRB (Laws 2017, Chapter 303) sets the total contribution by counties at \$11,260,000. The Baseline continues this requirement in FY 2019. *Table 1* displays the estimated payment by county:

County	FY 2018
Apache County	\$ 126,000
Cochise County	231,400
Coconino County	236,800
Gila County	94,400
Graham County	65,600
Greenlee County	14,800
La Paz County	36,100
Maricopa County	6,724,100
Mohave County	352,600
Navajo County	189,300
Pima County	1,726,800
Pinal County	661,900
Santa Cruz County	83,500
Yavapai County	371,800
Yuma County	344,900
TOTAL	\$11,260,000

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) continued a one-time \$8,000,000 General Fund appropriation to the Department of Administration

for distribution to counties according to their proportional share of the population as reported by the 2010 decennial census. This amount was meant to offset a portion of the costs paid by counties to DJC for local cost sharing. In 2018, *Table 2* displays the distribution by county. The Baseline does not continue this \$8.0 million appropriation in FY 2019, as it was labeled one-time in the FY 2018 budget's 3-year spending plan. (*Please see the County Funding narrative for more information on state distributions to counties.*)

County	FY 2018
Apache County	\$ 89,500
Cochise County	164,400
Coconino County	168,300
Gila County	67,100
Graham County	46,600
Greenlee County	10,500
La Paz County	25,700
Maricopa County	4,777,300
Mohave County	250,500
Navajo County	134,500
Pima County	1,226,900
Pinal County	470,300
Santa Cruz County	59,300
Yavapai County	264,100
Yuma County	245,000
TOTAL	\$8,000,000

FTE Reduction

The Baseline continues DJC's current FTE ceiling of 738.5 positions in FY 2019. Each September, agencies report their level of filled FTE positions to the JLBC Staff. In their September 1, 2017 FTE submission, DJC reported 390 filled FTE positions. Given these September estimates, DJC's FTE ceiling would exceed their filled number by 348.5 positions. In its FY 2019 budget submission, DJC requested decreasing their FTE ceiling by 222.5 positions to better reflect their actual staffing levels. Since DJC's proposal would still leave a substantial number of unfilled positions, this issue may warrant additional consideration during the legislative session prior to setting the FY 2019 ceiling.

Population Counts

Table 3 lists the DJC population by category. The housed and parole populations within DJC have seen significant decreases in the past 10 years. As illustrated in *Table 3*, the housed population within DJC has decreased from 321 to 181 or (43.6)% from FY 2015 through October 2017. The total parole population has also decreased significantly, realizing a reduction of (44.8)% 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 (Laws 2015, Chapter 17) altered the requirements for admission to DJC facilities. These changes include an increase in the minimum

admission age to 14, the requirement that juveniles who are admitted must have committed a felony in the past, and the allowance for those that are adjudicated as seriously mentally ill to be allowed admission if they have only committed a misdemeanor. Prior to this bill, the minimum age for admission was 8 years and individuals who had committed a misdemeanor were allowed entrance.

Table 3

DJC Census				
	<u>FY 2015 Average Population</u>	<u>FY 2016 Average Population</u>	<u>FY 2017 Average Population</u>	<u>Population as of October 31, 2017</u>
Housed Population				
Adobe Mountain	321	227	179	181
Parole Population				
Parole	127	81	68	45
Interstate Compact (Inside Arizona) ^{1/}	<u>114</u>	<u>111</u>	<u>108</u>	<u>88</u>
Total Parole Population	<u>241</u>	<u>192</u>	<u>176</u>	<u>133</u>
Total DJC Population	562	419	355	314

^{1/} The Interstate Compact is an agreement between states to supervise parolees in each other's state. "Inside Arizona" means parolees from other states living in Arizona and "Outside Arizona" means Arizona parolees living in other states. There was an average of 1 Arizona parolee outside of Arizona in FY 2016 and 1 parolee on October 31, 2017.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Criminal Justice Enhancement Fund (DJA2281/A.R.S. § 41-2401)		Appropriated
Source of Revenue: Receives 1.61% of state Criminal Justice Enhancement Fund (CJEF) revenues. CJEF consists of a 47% assessment added on to every fine, penalty and forfeiture collected by the courts for criminal offenses, and civil penalties imposed for traffic violations and motor vehicle violations.		
Purpose of Fund: For treatment and rehabilitation of youth who have committed drug-related offenses.		
Funds Expended	530,000	531,300
Year-End Fund Balance	1,242,300	931,800
Department of Juvenile Corrections Local Cost Sharing Fund (DJA3007/A.R.S. § 41-2833)		Appropriated
Source of Revenue: The FY 2016 Criminal Justice Budget Reconciliation Bill (Laws 2015, Chapter 17) created the Department of Juvenile Corrections Local Cost Sharing Fund with annual deposits from each county totaling \$12,000,000. The bill requires each county to pay a proportional share of the \$12,000,000 based on their share of the state population according to the 2010 decennial census. The FY 2017 Criminal Justice Reconciliation Bill (Laws 2016, Chapter 119) and the FY 2018 Criminal Justice Reconciliation Bill (Laws 2017, Chapter 303) reduced the appropriated amount to \$11,260,000.		
Purpose of Fund: To fund the operational costs of DJC.		
Funds Expended	11,260,000	11,260,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
DJC Restitution Fund (DJA2476/A.R.S. § 41-2826)		Non-Appropriated
Source of Revenue: Federal, state, and local appropriations distributed by the director from the DJC Career Technical Education Fund, in addition to grants, gifts, and other donations from any public or private source.		
Purpose of Fund: For the payment of restitution and monetary assessments by youths who are ordered to make such payments but who are financially unable to pay. In a committed youth work program or a community work program, youth participate and receive payment through the Restitution Fund, a portion of which is distributed in the form of restitution payments to victims or the court.		
Funds Expended	0	0
Year-End Fund Balance	164,000	164,000
Employee Recognition Fund (DJA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.		
Funds Expended	3,200	3,200
Year-End Fund Balance	3,300	2,800
Federal Funds (DJA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Grants.		
Purpose of Fund: For the National School Breakfast and Lunch Program, Special Education, Career Technology Education, substance abuse, and other federal programs.		
Funds Expended	698,800	659,100
Year-End Fund Balance	456,400	919,300
Indirect Cost Recovery Fund (DJA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay department wide administrative and overhead costs.		
Funds Expended	0	282,000
Year-End Fund Balance	280,200	280,200
Juvenile Corrections Fund (DJA3024/A.R.S. § 41-2810)		Non-Appropriated
Source of Revenue: Donations by individuals and businesses, proceeds from vending machines, and fund-raising efforts.		
Purpose of Fund: For additional supplies and department conferences, for purposes agreed upon by donors and the agency Director, or for special student activities.		
Funds Expended	22,700	17,100
Year-End Fund Balance	78,600	70,900
State Charitable, Penal and Reformatory Institutions Land Fund (DJA3029/A.R.S. § 37-525)		Appropriated
Source of Revenue: Earnings on state lands and interest on the investment of the Permanent Land Fund. As approved by voters in May 2016, Proposition 123 increased the Treasurer's annual distribution rate from the Permanent Land Fund from 2.5% to 6.9% from FY 2016 to FY 2025.		
Purpose of Fund: To help defray costs of operating juvenile correctional facilities.		
Funds Expended	2,002,300	3,272,600
Year-End Fund Balance	2,617,000	2,179,700
State Education Fund for Committed Youth (DJA2323/A.R.S. § 15-1371)		Appropriated
Source of Revenue: The state's statutory K-12 Basic State Aid formula provides funding based on the DJC population.		
Purpose of Fund: To help provide for the education of committed youth.		
Funds Expended	1,036,800	1,591,200
Year-End Fund Balance	81,300	365,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Education System for Committed Youth Classroom Site Fund (DJA2487/A.R.S. § 15-1373)		Non-Appropriated
Source of Revenue: Classroom Site Fund monies received from the ADE, pursuant to A.R.S. § 15-977. The Classroom Site Fund receives monies from a 0.6% sales tax approved by the voters in the November 2000 General Election (Proposition 301).		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases and employment related expenses (20%); and class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention, and teacher liability insurance premiums (40%).		
Funds Expended	168,800	208,800
Year-End Fund Balance	435,900	404,000
Statewide Donations Fund (DJA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	2,000	2,000
Year-End Fund Balance*	700	(300)

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

State Land Department

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.7	129.7	129.7
Personal Services	5,881,300	8,691,200	8,691,200
Employee Related Expenditures	2,257,100	1,910,300	1,764,000
Professional and Outside Services	2,658,200	2,405,100	2,405,100
Travel - In State	94,000	100,000	100,000
Travel - Out of State	9,700	10,000	10,000
Other Operating Expenditures	2,722,400	1,619,900	1,619,900
Equipment	62,300	65,000	65,000
OPERATING SUBTOTAL	13,685,000	14,801,500	14,655,200
SPECIAL LINE ITEMS			
CAP User Fees	994,400	994,400	1,443,500
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	537,000	650,000	650,000
Professional Service Contracts	0	250,000	0
Reassessment of Federal Permits	0	750,000	0
Right-of-Way Digitization	0	450,000	0
Streambed Navigability Litigation	12,700	220,000	220,000
Survey Assets	0	500,000	0
Workflow Digitization	0	500,000	0
AGENCY TOTAL	15,229,100	19,615,900	17,468,700
FUND SOURCES			
General Fund	12,269,200	12,365,900	12,671,600
<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	4,036,500
SUBTOTAL - Other Appropriated Funds	2,959,900	7,250,000	4,797,100
SUBTOTAL - Appropriated Funds	15,229,100	19,615,900	17,468,700
Other Non-Appropriated Funds	623,700	663,000	663,000
TOTAL - ALL SOURCES	15,852,800	20,278,900	18,131,700

AGENCY DESCRIPTION — The agency manages the state's 9.2 million acres of trust land on behalf of its 13 beneficiaries. In order to generate revenue, the agency plans, leases, and sells trust land. The agency also generates revenue by collecting royalties from trust land minerals and other natural products.

Operating Budget

The Baseline includes \$14,655,200 and 129.7 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$10,618,100
Environmental Special Plate Fund	600
Trust Land Management Fund	4,036,500

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(146,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. These amounts consist of:

General Fund	(143,400)
Trust Land Management Fund	(2,900)

(Please see the Technical Budget Assumptions section.)

CAP User Fees

The Baseline 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 Baseline includes an increase of \$449,100 from the General Fund in FY 2019 for revised FY 2018 CAP rates. This 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 FY 2018 CAP user fee appropriation of \$994,400. The 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 Baseline includes a \$449,100 supplemental from the General Fund to cover the higher-than-budgeted FY 2018 rates. *(Please see FY 2018 Supplemental section in Other Issues for more information.)*

Pursuant to A.R.S. § 37-106.01, the State Land Department has a long-term contract with the Central Arizona Water Conservation District (CAWCD) (the governing entity for CAP) for the rights to purchase 32,076 acre-feet of CAP water annually for municipal and industrial uses on state trust lands. The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year in order to maintain its CAP water rights. (The CAWCD uses revenue from capital charges to fund repayment of federal construction debt for the CAP.) Maintaining CAP water rights on state trust lands increases their market value. When CAP water rights on state trust lands are transferred to a municipality through the sale or lease of state trust lands, the state General Fund is reimbursed for all previous costs associated with the water rights pursuant to A.R.S. § 37-106.01C&G. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund

The Baseline 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 Baseline 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 Baseline includes no funding in FY 2019 for the Professional Service Contracts line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(250,000) from the Trust Land Management Fund in FY 2019 for the elimination of one-time funding for Professional Service Contracts.

Monies in this line item fund service contracts to conduct specialized studies including geographic information system (GIS) data mapping, site clean-ups, trespass

mitigation and market research in order to produce optimal results for business operations involving state trust lands.

Reassessment of Federal Permits

The Baseline includes no funding in FY 2019 for the Reassessment of Federal Permits line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(750,000) from the Trust Land Management Fund in FY 2019 for the elimination of one-time funding.

This line item funds 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 Baseline includes no funding in FY 2019 for the Right-of-Way Digitization line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(450,000) from the Trust Land Management Fund in FY 2019 for the elimination of one-time funding for Right-of-Way Digitization.

Land Trust land parcels encompass over 7,500 right-of-way legal descriptions that are currently recorded in paper documents. This line item funds the conversion of these 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 Baseline 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 Baseline includes no funding in FY 2019 for the Survey Assets line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(500,000) from the Trust Land Management Fund in FY 2019 for the elimination of one-time funding to perform asset surveys on State Trust Lands.

This line item funds engineering, hydrology, infrastructure, and market research studies to maximize property value of State Trust Lands, such as through mineral discovery.

Workflow Digitization

The Baseline includes no funding in FY 2019 for the Workflow Digitization line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(500,000) from the Trust Land Management Fund in FY 2019 for the elimination of one-time funding for Workflow Digitization.

This line item funds the digitization of the department's paper-based system for applications, billing defaults, cancellations and purchase orders.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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, one dollar reverts to the state General Fund in the year that the reimbursement is collected.

Of the amount appropriated for Natural Resource Conservation Districts in FY 2019, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers.

STATUTORY CHANGES

The Baseline would, as permanent law, delete language in A.R.S. § 37-527B requiring the State Land Commissioner to notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the percentage of trust land proceeds to be deposited into the Trust Land Management Fund each year.

Other Issues

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 an estimated \$204,341,200 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 an estimated \$24,126,500.

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 \$33,547,600 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.

FY 2018 Supplemental

CAP User Fees

The Baseline 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.)*

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		\$ 138,100	
Normal Schools ASU/NAU	296,600		756,800	
A & M Colleges	445,100		983,900	
School of Mines	499,800		1,198,100	
University Fund	2,175,400		2,736,600	
U of A Land - 1881	<u>1,659,400</u>		<u>6,432,700</u>	
Subtotal	\$ 5,160,100		\$12,246,200	
School for Deaf and Blind ^{4/}	\$ 424,400		\$ 718,600	
State Hospital	\$ 701,000	\$ 1,458,100	\$ 1,225,200	\$ 970,000
Legal, Executive, & Judicial Buildings	\$ 386,300	\$ 4,903,800	\$ 816,300	\$ 0
Corrections				
Penitentiaries	\$ 1,382,600	\$ 2,860,800	\$ 2,481,300	\$ 2,028,900
State Charitable (25%)	<u>1,452,500</u>	<u>3,363,300</u>	<u>2,974,400</u>	<u>2,661,500</u>
Subtotal	\$ 2,835,100	\$ 6,224,100	\$ 5,455,700	\$ 4,690,400
Pioneers' Home				
Miners' Hospital	\$ 1,981,400	\$ 6,360,300	\$ 4,162,300	\$ 2,028,900
State Charitable (50%)	<u>2,905,000</u>	<u>6,576,700</u>	<u>5,948,900</u>	<u>4,463,700</u>
Subtotal	\$ 4,886,400	\$ 12,937,000	\$ 10,111,200	\$ 6,492,600
Juvenile Corrections (State Charitable 25%)	\$ 1,452,500	\$ 2,179,700	\$ 2,974,400	\$ 3,011,300
Non-K-12 Beneficiaries Total	\$15,845,800		\$33,547,600	

^{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 2018 General Appropriation Act allows monies in this fund to be expended in excess of the appropriated amount. As a result, budget appropriations and balance amounts are not included.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
CAP Municipal and Industrial Repayment Fund (LDA2129/A.R.S. § 37-526)		Non-Appropriated
Source of Revenue: Reimbursements to the state for back water payments when cities assume their allocation of Central Arizona Project (CAP) water, legislative appropriations.		
Purpose of Fund: To make CAP water fee payments for urban state trust land. Monies remaining in the fund revert to the General Fund after the CAP subcontract obligations are met.		
Funds Expended	0	0
Year-End Fund Balance	5,300	5,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Due Diligence Fund (LDA2526/A.R.S. § 37-110)		Appropriated
Source of Revenue: Reimbursements from successful bidders on state lands for expenses incurred by the department to fund due diligence studies.		
Purpose of Fund: To prepare land for sales, leases, rights-of-ways, or other use-permits.		
Funds Expended	0	500,000
Year-End Fund Balance	55,700	55,700
Environmental Special Plate Fund (LDA2274/A.R.S. § 37-1015)		Appropriated
Source of Revenue: \$17 of the \$25 fee for environmental license plates.		
Purpose of Fund: To provide grants for environmental education projects. Funds Natural Resource Conservation Districts (NRCDs) and the education centers they sponsor. An amount of \$5,000 is distributed to each NRCD that sponsors an education center. Additionally, funds are distributed to NRCDs and education centers based on appropriation.		
Funds Expended	147,500	260,600
Year-End Fund Balance*	(120,600)	(279,200)
Federal Funds (LDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for urban and rural forestry, resource conservation, development of forest lands, insect and disease control, fire training and protection of forests, and other forestry projects.		
Purpose of Fund: For resource conservation and development, in accordance with the requirements of each grant.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal Reclamation Trust Fund (LDA2024/A.R.S. § 37-106)		Non-Appropriated
Source of Revenue: Reimbursements from lessees and interest.		
Purpose of Fund: To make payments for federal reclamation project assessments when state land lessees are delinquent.		
Funds Expended	0	0
Year-End Fund Balance	44,800	44,800
Interagency Agreements Fund (LDA2212/A.R.S. § 35-148)		Non-Appropriated
Source of Revenue: Collections from other state agencies for services and products provided by the State Land Department.		
Purpose of Fund: To pay for joint projects based upon interagency agreements with other state agencies.		
Funds Expended	0	0
Year-End Fund Balance	136,200	136,200
IGA and ISA Fund (LDA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA) and Intergovernmental Service Agreements (ISA).		
Funds Expended	0	0
Year-End Fund Balance	24,000	24,000
Off-Highway Vehicle Recreation Fund (LDA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: The Land Department receives 5% of the total Off-Highway Vehicle Fund revenue, which consists of fees for off-highway vehicle decals issued by the Department of Transportation and 0.55% of the motor fuel tax revenue.		
Purpose of Fund: To mitigate damage to land, to fund enforcement of off-highway vehicle laws, and for necessary environmental, historical, and cultural clearance or compliance activities.		
Funds Expended	242,300	250,000
Year-End Fund Balance	166,600	166,600

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Resource Analysis Division Revolving Fund (LDA4009/A.R.S. § 37-176)		Non-Appropriated
Source of Revenue: Receipts from the provision of Geographic Information Systems (GIS) products and services.		
Purpose of Fund: To offset the costs of GIS supplies and support.		
Funds Expended	39,700	42,000
Year-End Fund Balance	117,400	135,400
Riparian Acquisition Trust Fund (LDA3201/A.R.S. § 37-1156)		Non-Appropriated
Source of Revenue: Receipts from the sale or use of state streambed lands and resources, damages collected due to a federal violation of public trust by the conveyance of state streambeds, and designated donations.		
Purpose of Fund: To fund the acquisition of wetland areas in the state.		
Funds Expended	0	0
Year-End Fund Balance	6,600	6,600
State Land Department Fund (LDA2451/A.R.S. § 37-107)		Non-Appropriated
Source of Revenue: Reimbursements from successful bidders on state trust lands for expenses incurred to advertise land sales and for zoning application fees.		
Purpose of Fund: To fund expenses incurred from the advertisement of state trust land sales and to pay zoning fees for new projects.		
Funds Expended	341,000	370,000
Year-End Fund Balance	2,515,900	2,445,900
Statewide Employee Recognition Gifts/Donations Fund (LDA2449/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: This fund receives monies through gifts and donations.		
Purpose of Fund: This fund is used to conduct employee recognition programs.		
Funds Expended	700	1,000
Year-End Fund Balance	1,200	1,200
Trust Land Management Fund (LDA3146/A.R.S. § 37-527)		Appropriated
Source of Revenue: Fees charged by the department. The total balance of the fund is capped at 2 times the trust land management budget for the following fiscal year.		
Purpose of Fund: To fund the management of the approximately 9 million acres of State Trust land throughout the state.		
Funds Expended	2,812,400	6,489,400
Year-End Fund Balance	7,996,400	7,925,000

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

Legislature - Auditor General

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.8	188.8	190.8
Personal Services	11,235,800	11,550,800	11,621,400
Employee Related Expenditures	4,142,600	4,496,400	4,269,900
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	1,158,300
Equipment	567,300	653,300	655,800
OPERATING SUBTOTAL	18,066,500	18,688,800	18,546,500
SPECIAL LINE ITEMS			
Special Audit	0	200,000	0
AGENCY TOTAL	18,066,500	18,888,800	18,546,500
FUND SOURCES			
General Fund	18,066,500	18,688,800	18,546,500
<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	18,546,500
Other Non-Appropriated Funds	2,499,100	2,040,200	2,040,200
TOTAL - ALL SOURCES	20,565,600	20,929,000	20,586,700

AGENCY DESCRIPTION — The Auditor General (AG) provides an independent financial, performance, and compliance audit capability in support of legislative oversight and public accountability of funds administered by the state and certain local governments.

Operating Budget

The Baseline includes \$18,546,500 and 190.8 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(249,800) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Special Investigative Unit

The Baseline 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 4 FTE Positions will not appear in the FY 2019 General Appropriation Act as these monies have already been appropriated.

Special Audit

The Baseline 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 Baseline 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.

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the lump sum appropriation is funding to pay state rent at the statewide rate.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Audit Services Revolving Fund (AUA2242/A.R.S. § 41-1279.06)		Non-Appropriated
<i>Source of Revenue:</i> Charges to state budget units, counties, community college districts or school districts for audits or accounting services performed by, or under the supervision of, the Auditor General. A majority of the amounts collected are for federal compliance audits required by the Single Audit Act, as such audited entities are reimbursed by the federal government.		
<i>Purpose of Fund:</i> To conduct audits required under federal law, special audits, or provide accounting services requested by state budget units, counties, community college districts or school districts. Monies in this fund may also be used to pay certified public accountants to conduct audits or provide accounting services.		
Funds Expended	2,499,100	2,040,200
Year-End Fund Balance	574,800	334,600
Water Banking Fund (AVA2110/A.R.S. § 45-2425)		Appropriated
<i>Source of Revenue:</i> General Fund appropriations and fees associated with the purchase, lease, storage, accreditation, and delivery of Colorado River water to municipalities and industrial water users.		
<i>Purpose of Fund:</i> Used by the Department of Water Resources to purchase and store the unused portion of Arizona's Colorado River water allotment. On a one-time basis, these monies are used by the Auditor General to fund an audit of the Central Arizona Water Conservation District.		
Funds Expended	0	200,000
Year-End Fund Balance	0	0

Legislature - House of Representatives

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	13,322,300	13,419,100	13,201,500
AGENCY TOTAL	13,322,300	13,419,100	13,201,500
FUND SOURCES			
General Fund	13,322,300	13,419,100	13,201,500
SUBTOTAL - Appropriated Funds	13,322,300	13,419,100	13,201,500
TOTAL - ALL SOURCES	13,322,300	13,419,100	13,201,500

AGENCY DESCRIPTION — The House of Representatives is made up of 60 members, 2 of whom are elected from each of the legislative districts. The officers and employees of the House of Representatives consist of the Speaker of the House, a Chief Clerk of the House, and other employees as the House directs.

Operating Budget

The Baseline includes \$13,201,500 from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(217,600) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the Lump Sum appropriation of \$13,201,500 for FY 2019 is \$1,000 for the purchase of mementos and items for visiting officials.

Legislature - Joint Legislative Budget Committee

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	601,300
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	2,488,300
FUND SOURCES			
General Fund	2,309,500	2,513,800	2,488,300
SUBTOTAL - Appropriated Funds	2,309,500	2,513,800	2,488,300
TOTAL - ALL SOURCES	2,309,500	2,513,800	2,488,300

AGENCY DESCRIPTION — The Staff of the Joint Legislative Budget Committee, established by the Arizona Legislature, provides its members with analysis, forecasts, research and recommendations on state government finances and public policies.

Operating Budget

The Baseline includes \$2,488,300 and 29 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(25,500) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Legislature - Legislative Council

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	49.0	49.0	52.0
Personal Services	2,686,300	2,790,300	2,790,300
Employee Related Expenditures	920,800	960,200	897,200
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	7,392,500
SPECIAL LINE ITEMS			
Hearing Loop Installation	250,000	0	0
Ombudsman-Citizens Aide Office	807,900	822,900	822,900
AGENCY TOTAL	7,232,500	8,278,400	8,215,400
FUND SOURCES			
General Fund	6,982,500	8,278,400	8,215,400
<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	8,215,400
TOTAL - ALL SOURCES	7,232,500	8,278,400	8,215,400

AGENCY DESCRIPTION — The Legislative Council, a staff agency of the Legislative Department, provides bill drafting and research services, continuing code revision and manages the operation and renovation of certain legislative buildings and grounds. The council is also responsible for the development, operation, and maintenance of the legislative computer system.

Operating Budget

The Baseline includes \$7,392,500 and 43 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Transitional Personnel

The Baseline includes an increase of 3 FTE Positions from the General Fund in FY 2019 for transitional personnel. Legislative Council will train new staff/attorneys to assume responsibilities of retiring staff/attorneys. No increased appropriation is necessary. The cost would be absorbed with existing appropriations.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(63,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Ombudsman-Citizens Aide Office

The Baseline includes \$822,900 and 9 FTE Positions from the General Fund in FY 2019 for the Ombudsman-Citizens Aide Office. These amounts are unchanged from FY 2018.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

It is the intent of the Legislature that the Ombudsman-Citizens Aide prioritize the investigation and processing of complaints relating to the Department of Child Safety.

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Dues for the Council of State Governments may be expended only on an affirmative vote of the Legislative Council.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Telecommunication Fund for the Deaf (LEG2047/A.R.S. § 36-1947)		Appropriated
Source of Revenue: Telecommunications Services Excise Tax, which is a 1.1% surcharge on local telephone bills.		
Purpose of Fund: To operate the Arizona Relay System; support community outreach and education; purchase, repair, and distribute telecommunications devices for the deaf, hard of hearing, blind, and speech impaired; and operating costs of the commission. For FY 2017, the fund also provided \$250,000 in one-time funding to Legislative Council for the installation of looping hearing aid service systems in the House of Representatives and Senate buildings. <i>(See Summary of Funds for the Commission for the Deaf and the Hard of Hearing for information on funds expended and year-end balances for the fund overall.)</i>		
Funds Expended	250,000	0
Year-End Fund Balance	0	0

Legislature - Senate

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	8,905,600	9,548,100	9,408,500
AGENCY TOTAL	8,905,600	9,548,100	9,408,500
FUND SOURCES			
General Fund	8,905,600	9,548,100	9,408,500
SUBTOTAL - Appropriated Funds	8,905,600	9,548,100	9,408,500
TOTAL - ALL SOURCES	8,905,600	9,548,100	9,408,500

AGENCY DESCRIPTION — The Senate is made up of 30 members elected from each of the legislative districts. The officers and employees of the Senate consist of the President of the Senate, a Secretary of the Senate, and other employees as the Senate directs.

Operating Budget

The Baseline includes \$9,408,500 from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(139,600) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

* * *

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the Lump Sum appropriation of \$9,408,500 for FY 2019 is \$1,000 for the purchase of mementos and items for visiting officials.

Department of Liquor Licenses and Control

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	45.1.0	45.2	45.2
Personal Services	1,399,800	1,399,800	1,399,800
Employee Related Expenditures	817,700	858,100	818,000
Professional and Outside Services	147,100	97,700	97,700
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	576,000
OPERATING SUBTOTAL	3,004,400	3,047,500	3,007,400
SPECIAL LINE ITEMS			
Licensing Replacement System	595,000	0	0
AGENCY TOTAL	3,599,400	3,047,500	3,007,400
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	3,599,400	3,047,500	3,007,400
SUBTOTAL - Other Appropriated Funds	3,599,400	3,047,500	3,007,400
SUBTOTAL - Appropriated Funds	3,599,400	3,047,500	3,007,400
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	4,270,300

AGENCY DESCRIPTION — The department licenses, investigates and regulates the production, distribution, and sale of alcoholic beverages throughout the state.

Operating Budget

The Baseline includes \$3,007,400 and 45.2 FTE Positions from the Liquor Licenses Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(40,100) from the Liquor Licenses Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Licensing Replacement System

The Baseline includes no funding in FY 2019 for a licensing and imaging system. This amount is unchanged from FY 2018.

Monies in this line item are used for the replacement of the licensing and imaging system. The new system integrates both licensing and imaging; enhances tracking,

reporting and enforcement mechanisms; and allows the department to accept online license renewals and fee payments.

The department received \$626,700 in FY 2015 and \$400,000 in FY 2016 for a total of \$1,026,700 for the project. The department also received an extension of its spending authority for these appropriations in the FY 2016, FY 2017, and FY 2018 Revenue Budget Reconciliation Bills to complete the project. Through November 2017, the department had spent \$830,900 on the project, and expects to complete the project during FY 2018.

* * *

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Anti-Racketeering Revolving Fund (LLA2131/A.R.S. § 13-2314.01)		Non-Appropriated
<i>Source of Revenue:</i> Forfeitures of property and assets to satisfy judgments pursuant to state anti-racketeering statutes.		
<i>Purpose of Fund:</i> To investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.		
Funds Expended	10,800	11,400
Year-End Fund Balance	27,900	16,500
Audit Surcharge Fund (LLA3010/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$30 surcharge on liquor licenses for bars, retail stores, and restaurants.		
<i>Purpose of Fund:</i> To fund an auditor and support staff positions to review revenue requirements for restaurant liquor licenses.		
Funds Expended	180,200	179,600
Year-End Fund Balance	54,100	43,300
Direct Shipment License Issuance Fund (LLA3017/A.R.S. § 4-203.04B)		Non-Appropriated
<i>Source of Revenue:</i> Fees charged by the director for the issuance of a direct shipment license.		
<i>Purpose of Fund:</i> Administrative costs associated with the direct shipment license.		
Funds Expended	0	0
Year-End Fund Balance	118,800	164,200
Direct Shipment License Renewal Fund (LLA3018/A.R.S. § 4-203.04D)		Non-Appropriated
<i>Source of Revenue:</i> Fees charged by the director for the renewal of a direct shipment license.		
<i>Purpose of Fund:</i> Administrative costs associated with the direct shipment licensing, auditing, and enforcement.		
Funds Expended	0	0
Year-End Fund Balance	22,200	132,200
DPS-FBI Fingerprint Fund (LLA2159/A.R.S. § 4-112)		Non-Appropriated
<i>Source of Revenue:</i> Fingerprint fees collected as part of the application process.		
<i>Purpose of Fund:</i> Fingerprint fees are transferred to the Department of Public Safety.		
Funds Expended	0	0
Year-End Fund Balance	3,100	3,100
Enforcement Surcharge - Enforcement Unit Fund (LLA3012/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$20 surcharge on hotel and restaurant liquor licenses and \$35 on all other licenses.		
<i>Purpose of Fund:</i> For the costs of a neighborhood association interaction and liquor enforcement management unit. The unit works with neighborhood associations regarding liquor violations.		
Funds Expended	365,900	366,800
Year-End Fund Balance	53,300	42,500
Enforcement Surcharge - Multiple Complaints Fund (LLA3011/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$35 surcharge on liquor license renewals.		
<i>Purpose of Fund:</i> To investigate licensees which have been the subject of multiple complaints from neighborhood associations, civic groups, and local governments.		
Funds Expended	413,300	412,400
Year-End Fund Balance	133,900	133,900
Federal Grants (LLA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal revenues received through the Governor's Office of Highway Safety.		
<i>Purpose of Fund:</i> To pay overtime expenses for special investigators investigating licensees reportedly serving alcohol to juveniles.		
Funds Expended	292,200	279,300
Year-End Fund Balance	2,300	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA and ISA Fund (LLA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Monies received through intergovernmental and interagency agreements.		
<i>Purpose of Fund:</i> To record and manage Intergovernmental Agreements and Internal Service Agreements.		
Funds Expended	900	13,400
Year-End Fund Balance	26,800	13,400
Liquor Licenses Fund (LLA1996/A.R.S. § 4-120)		Appropriated
<i>Source of Revenue:</i> A portion of the state's liquor license fee revenues, not to exceed the appropriation of the Legislature.		
<i>Purpose of Fund:</i> To pay operating expenses for the Department of Liquor Licenses and Control. Any balance over \$700,000 shall revert to the General Fund at the end of each year.		
Funds Expended	3,599,400	3,047,500
Year-End Fund Balance	251,800	251,800

Arizona State Lottery Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	1,693,300
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	1,173,200
Equipment	57,800	0	0
OPERATING SUBTOTAL	7,210,400	8,458,500	8,353,700
SPECIAL LINE ITEMS			
Advertising	12,198,800	15,500,000	15,500,000
Charitable Commissions	1,296,900	1,385,700	1,577,600
Instant Tickets	14,082,800	20,516,700	21,763,100
On-Line Vendor Fees	8,676,700	10,221,400	10,120,100
Retailer Commissions	55,791,100	60,696,300	63,210,600
AGENCY TOTAL	99,256,700	116,778,600	120,525,100
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	99,256,700	116,778,600	120,525,100
SUBTOTAL - Other Appropriated Funds	99,256,700	116,778,600	120,525,100
SUBTOTAL - Appropriated Funds	99,256,700	116,778,600	120,525,100
Other Non-Appropriated Funds	559,491,400	584,638,500	614,996,800
TOTAL - ALL SOURCES	658,748,100	701,417,100	735,521,900

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

Operating Budget

The Baseline includes \$8,353,700 and 98.8 FTE Positions from the State Lottery Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(104,800) from the State Lottery Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Advertising

The Baseline 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 Baseline 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 Baseline 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 Baseline includes \$21,763,100 from the State Lottery Fund in FY 2019 for Instant Tickets. FY 2019 adjustments are as follows:

Instant Ticket Sales Increase

The Baseline 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.)

Monies in this line item are used to pay for instant ticket printing and distribution costs. The appropriation is for 3.05% of instant ticket sales 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

An amount equal to 20% of Tab Ticket sales is appropriated for payment of sales commissions to charitable organizations. This amount is currently estimated to be \$1,577,600 in FY 2019.

An amount equal to 3.05% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$21,763,100 in FY 2019.

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.

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.

Other Issues

Lottery Forecast and Distributions

The Baseline 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 Baseline assumes

Lottery ticket sales of \$912,843,600 and \$951,329,600, respectively.

Sources and Uses of Lottery Profit Distribution

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 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)

<u>Sales</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
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	\$ 120.5
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>615.0</u>
Net Profit ^{5/}	\$192.6	\$207.3	\$215.2
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/}	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/}	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/}	<u>6.3</u>	<u>20.7</u>	<u>28.3</u>
Total Transfer	\$192.6	\$207.3	\$215.2

^{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 totaled \$68,497,000 in FY 2017 and are estimated to be \$82,868,200 in FY 2018 and \$90,333,000 in FY 2019.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Lottery Fund (LOA2122/A.R.S. § 5-571)		Partially-Appropriated
Source of Revenue: Sales of lottery tickets, retailer license fees, and interest earnings.		
Purpose of Fund: A portion of the fund is appropriated to pay for all costs of the Arizona State Lottery Commission. After all expenses are paid including the prize monies displayed below in the Non-Appropriated Funds Expended line, Lottery profits are distributed to a number of different functions.		
Appropriated Funds Expended	99,256,700	116,778,600
Non-Appropriated Funds Expended	559,491,400	584,638,500
Year-End Fund Balance	35,269,100	8,430,600

Board of Massage Therapy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	77,000
Professional and Outside Services	56,800	56,800	56,800
Travel - In State	200	500	500
Other Operating Expenditures	79,400	134,600	134,600
Equipment	3,100	0	0
AGENCY TOTAL	413,600	466,100	461,100

FUND SOURCES

Other Appropriated Funds

Board of Massage Therapy Fund	413,600	466,100	461,100
SUBTOTAL - Other Appropriated Funds	413,600	466,100	461,100
SUBTOTAL - Appropriated Funds	413,600	466,100	461,100
TOTAL - ALL SOURCES	413,600	466,100	461,100

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 Baseline includes \$461,100 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Other Issues

One-Time Relocation Costs

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,000) from the Board of Massage Therapy Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Massage Therapy Fund (BMT2300/A.R.S. § 32-4205)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of massage therapists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate massage therapists, and for board administration.		
Funds Expended	413,600	466,100
Year-End Fund Balance	1,234,100	1,355,400

Arizona Medical Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	1,247,200
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	898,200
Equipment	193,800	276,300	276,300
OPERATING SUBTOTAL	5,988,000	6,841,900	6,784,000
SPECIAL LINE ITEMS			
Employee Performance Incentive Program	149,900	165,000	165,000
AGENCY TOTAL	6,137,900	7,006,900	6,949,000
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Medical Board Fund	6,137,900	7,006,900	6,949,000
SUBTOTAL - Other Appropriated Funds	6,137,900	7,006,900	6,949,000
SUBTOTAL - Appropriated Funds	6,137,900	7,006,900	6,949,000
Other Non-Appropriated Funds	0	10,000	0
TOTAL - ALL SOURCES	6,137,900	7,016,900	6,949,000

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician's assistants.

Operating Budget

The Baseline includes \$6,784,000 and 61.5 FTE Positions from the Arizona Medical Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(57,900) from the Arizona Medical Board Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* section.)

Employee Performance Incentive Program

The Baseline 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 Baseline 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 taken to approve a new license after receiving an application.

In FY 2018, the Medical Board estimates 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 Baseline would create a new line item and cap annual spending for the program at \$165,000.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Deletion of Prior Year Footnotes

The Baseline would delete the footnote on the Performance Based Incentive Program. (Please see the Employee Performance Incentive Program line item for more details.)

Other Issues

One-Time Relocation Costs

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Medical Board Fund (MEA2038/A.R.S. § 32-1406)		Appropriated
Source of Revenue: Monies collected by the Arizona Medical Board from the examination and licensing of physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate physicians, and for board administration costs. The board uses up to 7% of the fund balance at the end of each fiscal year for a performance based incentive program the following fiscal year. Expenditures from this fund include \$149,900 in FY 2017 and \$165,000 in FY 2018 for the incentive program.		
Funds Expended	6,137,900	7,006,900
Year-End Fund Balance	6,383,800	6,297,100
Statewide Donations Fund (MEA2025/A.R.S. § 32-1403)		Non-Appropriated
Source of Revenue: Grants.		
Purpose of Fund: To fund purposes specified by grants made to the board. Laws 2016, Chapter 137 made the board a member of the Medical Licensure Compact and required the board to use an expedited licensure process for out-of-state physicians in 12 other member states. The Federation of State Medical Boards awarded a \$10,000 grant to fund new compact licensure requirements.		
Funds Expended	0	10,000
Year-End Fund Balance	10,000	0

State Mine Inspector

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	230,600
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	189,800
Equipment	48,800	0	0
OPERATING SUBTOTAL	992,700	1,032,100	1,017,800
SPECIAL LINE ITEMS			
Abandoned Mines	159,800	194,700	194,700
Aggregate Mining Land Reclamation	23,200	112,900	112,900
AGENCY TOTAL	1,175,700	1,339,700	1,325,400
FUND SOURCES			
General Fund	1,152,500	1,226,800	1,212,500
<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	1,325,400
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	1,751,800

AGENCY DESCRIPTION — The State Mine Inspector is an elected constitutional officer and may serve 4 consecutive 4-year terms. The office inspects the health conditions and safety of mining operations, investigates mining accidents, identifies abandoned mines, and conducts safety certification classes for mine employees.

Operating Budget

The Baseline includes \$1,017,800 and 14 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(14,300) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Abandoned Mines

The Baseline 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.

Aggregate Mining Land Reclamation

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

All Aggregate Mining Reclamation Fund monies received by the State Mine Inspector in excess of \$112,900 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Abandoned Mines Safety (MIA2408/A.R.S. § 27-131)		Non-Appropriated
Source of Revenue: Gifts, grants and contributions. The Legislature may appropriate matching monies.		
Purpose of Fund: To locate, inventory, classify and eliminate public safety hazards at abandoned mines.		
Funds Expended	6,300	4,400
Year-End Fund Balance	134,800	130,400
Aggregate Mining Reclamation Fund (MIA2511/A.R.S. § 27-1233)		Appropriated
Source of Revenue: Fees collected from exploration and aggregate mining operations.		
Purpose of Fund: To review aggregate mining land reclamation plans and to enforce compliance with the plans.		
Funds Expended	23,200	112,900
Year-End Fund Balance	143,100	49,200
Federal Education and Training Fund (MIA2400/A.R.S. § 27-123)		Non-Appropriated
Source of Revenue: Fees for education and training of mine employees required under federal regulation.		
Purpose of Fund: To provide mine safety training to mine employees in Arizona. All mine employees are required under federal regulations to receive initial and annual refresher safety training.		
Funds Expended	35,500	33,100
Year-End Fund Balance	283,600	301,400
Federal Grants (MIA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants from the U.S. Department of Labor, Mine Safety and Health Administration and the Department of Interior, Bureau of Land Management (BLM).		
Purpose of Fund: To provide mine safety training to mine employees in Arizona. All mine employees are required under federal regulations to receive initial and annual refresher safety training. The state provides a 20% in-kind match. The BLM grant is for an inventory of abandoned mines on BLM lands.		
Funds Expended	672,300	388,900
Year-End Fund Balance	18,800	165,800

Naturopathic Physicians Medical Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	44,400
Professional and Outside Services	700	0	0
Travel - In State	1,500	1,100	1,100
Other Operating Expenditures	13,100	34,200	34,200
Equipment	300	0	0
AGENCY TOTAL	162,300	183,000	180,200

FUND SOURCES

Other Appropriated Funds

Naturopathic Physicians Medical Board Fund	162,300	183,000	180,200
SUBTOTAL - Other Appropriated Funds	162,300	183,000	180,200
SUBTOTAL - Appropriated Funds	162,300	183,000	180,200
TOTAL - ALL SOURCES	162,300	183,000	180,200

AGENCY DESCRIPTION — The board licenses and regulates naturopathic physicians, and naturopathic medical assistants. The board certifies physicians to dispense natural remedies, and accredits and approves naturopathic medical schools, internships, and programs. The board also investigates persons unlawfully practicing naturopathic medicine and refers them for prosecution. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The Baseline includes \$180,200 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,800) from the Naturopathic Physicians Medical Board Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Naturopathic Physicians Medical Board Fund (NBA2042/A.R.S. § 32-1505)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of naturopathic physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate naturopathic physicians, and naturopathic medical assistants and for board administration.		
Funds Expended	162,300	183,000
Year-End Fund Balance	908,400	1,100,200

Arizona Navigable Stream Adjudication Commission

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	70,000	70,000	70,000
Employee Related Expenditures	30,000	30,000	28,500
Professional and Outside Services	200,000	200,000	200,000
Other Operating Expenditures	19,500	19,500	19,500
Equipment	3,500	6,000	6,000
AGENCY TOTAL	323,000	325,500	324,000
FUND SOURCES			
General Fund	123,000	125,500	124,000
<u>Other Appropriated Funds</u>			
Arizona Water Banking Fund	200,000	200,000	200,000
SUBTOTAL - Other Appropriated Funds	200,000	200,000	200,000
SUBTOTAL - Appropriated Funds	323,000	325,500	324,000
TOTAL - ALL SOURCES	323,000	325,500	324,000

AGENCY DESCRIPTION — The Arizona Navigable Stream Adjudication Commission (ANSAC) is a 5-member body charged with determining the ownership of watercourses in the state by establishing whether the watercourses were navigable at the time of statehood. If navigable, title to the watercourse belongs to the state based on a series of court rulings. If non-navigable, the title to the watercourse belongs to the current title holder.

Operating Budget

The Baseline includes \$324,000 and 2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$124,000
Arizona Water Banking Fund	200,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,500) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

* * *

FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue to allow up to \$200,000 from the Arizona Water Banking Fund to be spent for the commission's unpaid legal obligations. This provision was included in the FY 2018 Environmental Budget Reconciliation Bill (Laws 2017, Chapter 308). In FY

2017, the commission spent \$200,000 from the Arizona Water Banking Fund on unpaid legal obligations.

Other Issues

Litigation

The commission is responsible for determining the navigability of state watercourses at the time of statehood. If navigable, the watercourses are considered State Trust Land and any related proceeds from the waterbeds would be deposited in the Riparian Trust Fund, pursuant to A.R.S. § 37-1156. The monies in this fund are primarily used to acquire and maintain land adjacent to the waterbeds for conservation purposes.

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 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 October 2017, 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 and presumably any cases will be appealed by the end of calendar year 2018. Pending any new appeals, the commission should complete the agency’s trial work by 2018. The commission is scheduled to sunset on June 30, 2020 pursuant to Laws 2015, Chapter 58.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
IGA and ISA Fund (NSA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies transferred in from other governmental entities or agencies under intergovernmental agreements or interagency services agreements.		
Purpose of Fund: To pay for operations of ANSAC, including holding hearings and paying outside legal counsel for legal work, as well as expert witnesses and court reporters.		
Funds Expended	0	0
Year-End Fund Balance	200	200
Arizona Water Banking Fund (NSA2110/A.R.S. § 45-2425)		Appropriated
Source of Revenue: General Fund appropriations and fees associated with the purchase, lease, storage, accreditation, and delivery of Colorado River water to municipalities and industrial water users (<i>see Department of Water Resources narrative for more information</i>). The FY 2017 and FY 2018 Environment Budget Reconciliation Bills continue to allow use of the Water Banking Fund for the commission’s unpaid legal obligations.		
Purpose of Fund: To fund outside legal counsel and court reporters for court hearings.		
Funds Expended	200,000	200,000
Year-End Fund Balance *	(57,100)	(257,100)

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

State Board of Nursing

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	914,800
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	603,400
Equipment	80,300	42,400	42,400
OPERATING SUBTOTAL	4,238,800	4,323,800	4,248,100
SPECIAL LINE ITEMS			
Certified Nursing Assistant Credentialing Program	536,700	536,700	536,700
AGENCY TOTAL	4,775,500	4,860,500	4,784,800
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,775,500	4,860,500	4,784,800
SUBTOTAL - Other Appropriated Funds	4,775,500	4,860,500	4,784,800
SUBTOTAL - Appropriated Funds	4,775,500	4,860,500	4,784,800
Federal Funds	414,700	518,600	518,600
TOTAL - ALL SOURCES	5,190,200	5,379,100	5,303,400

AGENCY DESCRIPTION — The board licenses, regulates, conducts examinations and approves educational programs for nurses and nurse aides.

Operating Budget

The Baseline includes \$4,248,100 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 Baseline 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 Health Insurance Adjustment

The Baseline includes a decrease of \$(55,700) from the Board of Nursing Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Certified Nursing Assistant Credentialing Program

The Baseline 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.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

One-Time Relocation Costs

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Nursing Fund (BNA2044/A.R.S. § 32-1611)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of nurses. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate nurses, and for board administration. Monies from the fund are also used to pay for the administrative and testing costs of the Nursing Aide Registration program. The program is mandated by the federal government and is funded through the Nursing Aide Training and Registration Fund, a non-appropriated subaccount of the Board of Nursing Fund.		
Funds Expended	4,775,500	4,860,500
Year-End Fund Balance	4,104,200	2,990,700
Nurse Aide Training and Registration (BNA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal monies passed through from the Department of Health Services (Medicare) and AHCCCS (Title XIX Medicaid), facility payments, and nurse aide fees.		
Purpose of Fund: To pay for the administrative and testing costs of the Nurse Aide Registration program as mandated by the federal government.		
Funds Expended	414,700	518,600
Year-End Fund Balance	400	400
Statewide Donations Fund (BNA2025/A.R.S. § 32-1606A11)		Non-Appropriated
Source of Revenue: Donations, gifts and private grants. Monies do not revert to the General Fund at the end of the fiscal year.		
Purpose of Fund: To assist in carrying out the purposes of the agency.		
Funds Expended	0	0
Year-End Fund Balance	22,000	22,000

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	98,000
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	51,400
Equipment	0	6,000	6,000
AGENCY TOTAL	370,700	426,500	421,400
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	370,700	426,500	421,400
SUBTOTAL - Other Appropriated Funds	370,700	426,500	421,400
SUBTOTAL - Appropriated Funds	370,700	426,500	421,400
TOTAL - ALL SOURCES	370,700	426,500	421,400

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 Baseline includes \$421,400 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,100) from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions section.)

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund (NCA2043/A.R.S. § 36-446.08)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of nursing home administrators and assisted living facility managers. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate nursing home administrators and assisted living facility managers, and for board administration.		
Funds Expended	370,700	426,500
Year-End Fund Balance	416,700	352,800

Board of Occupational Therapy Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	46,100
Professional and Outside Services	100	0	0
Travel - In State	600	1,300	1,300
Other Operating Expenditures	33,300	30,300	20,300
Equipment	0	12,000	12,000
AGENCY TOTAL	167,400	183,700	170,700

FUND SOURCES

Other Appropriated Funds

Occupational Therapy Fund	167,400	183,700	170,700
SUBTOTAL - Other Appropriated Funds	167,400	183,700	170,700
SUBTOTAL - Appropriated Funds	167,400	183,700	170,700
TOTAL - ALL SOURCES	167,400	183,700	170,700

AGENCY DESCRIPTION - The board examines and licenses occupational therapists and occupational therapy assistants, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The Baseline includes \$170,700 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 Baseline 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(3,000) from the Occupational Therapy Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Occupational Therapy Fund (OTA2263/A.R.S. § 32-3405)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of occupational therapists and occupational therapy assistants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate occupational therapists and occupational therapy assistants, and for board administration.		
Funds Expended	167,400	183,700
Year-End Fund Balance	652,600	423,100

State Board of Dispensing Opticians

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	27,300
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	27,700
AGENCY TOTAL	119,400	141,700	140,000

FUND SOURCES

Other Appropriated Funds

Board of Dispensing Opticians Fund	119,400	141,700	140,000
SUBTOTAL - Other Appropriated Funds	119,400	141,700	140,000
SUBTOTAL - Appropriated Funds	119,400	141,700	140,000
TOTAL - ALL SOURCES	119,400	141,700	140,000

AGENCY DESCRIPTION — The board licenses and regulates optical establishments and opticians. An optician fits and sells optical devices such as contact lenses and eyeglasses. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The Baseline includes \$140,000 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,700) from the Board of Dispensing Opticians Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions section.)

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Dispensing Opticians Fund (DOA2046/A.R.S. § 32-1686)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of opticians and optical establishments. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate opticians and optical establishments, and for board administration.		
Funds Expended	119,400	141,700
Year-End Fund Balance	312,000	304,400

State Board of Optometry

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	42,900
Professional and Outside Services	300	500	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	50,300
AGENCY TOTAL	203,400	222,200	220,100

FUND SOURCES

Other Appropriated Funds

Board of Optometry Fund	203,400	222,200	220,100
SUBTOTAL - Other Appropriated Funds	203,400	222,200	220,100
SUBTOTAL - Appropriated Funds	203,400	222,200	220,100
TOTAL - ALL SOURCES	203,400	222,200	220,100

AGENCY DESCRIPTION — The board licenses and regulates optometrists and issues certificates authorizing the use of diagnostic pharmaceutical agents. An optometrist examines eyes, measures vision, and prescribes corrective lenses and treatments which do not require a licensed physician. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The Baseline includes \$220,100 and 2 FTE Positions from the Board of Optometry Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,100) from the Board of Optometry Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Optometry Fund (OBA2023/A.R.S. § 32-1705)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of optometrists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate optometrists, and for board administration.		
Funds Expended	203,400	222,200
Year-End Fund Balance	289,100	266,800

Arizona Board of Osteopathic Examiners in Medicine and Surgery

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	169,000
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	154,600
Equipment	20,800	0	0
AGENCY TOTAL	847,700	913,100	905,500

FUND SOURCES

Other Appropriated Funds

Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund	847,700	913,100	905,500
SUBTOTAL - Other Appropriated Funds	847,700	913,100	905,500
SUBTOTAL - Appropriated Funds	847,700	913,100	905,500
TOTAL - ALL SOURCES	847,700	913,100	905,500

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 Baseline includes \$905,500 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,600) from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund (OSA2048/A.R.S. § 32-1805)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of osteopathic physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate osteopathic physicians, and for board administration.		
Funds Expended	847,700	913,100
Year-End Fund Balance	1,885,800	1,910,800

Arizona Parents Commission on Drug Education and Prevention

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Drug Treatment and Education Fund (PCA2277/A.R.S. § 13-901.02)		Partially-Appropriated
Source of Revenue: Fifty percent of the Judiciary Drug Treatment and Education Fund. The Judiciary Drug Treatment and Education Fund receives 7% of tax revenue collected on spirituous liquors and 18% of tax revenue collected on vinous and malt liquor.		
Purpose of Fund: To fund programs that increase parental involvement and education regarding the problems caused by the abuse of alcohol and controlled substances.		
Appropriated Funds Expended	300,000	0
Non-Appropriated Funds Expended	3,946,100	5,207,800
Year-End Fund Balance	4,293,400	3,585,600

Arizona State Parks Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0
Personal Services	4,344,000	4,842,800	4,842,800
Employee Related Expenditures	1,975,100	2,517,500	2,400,900
Professional and Outside Services	551,500	53,000	53,000
Travel - In State	1,600	18,300	18,300
Other Operating Expenditures	3,936,700	3,883,600	3,883,600
Equipment	425,200	829,200	829,200
OPERATING SUBTOTAL	11,234,100	12,144,400	12,027,800
SPECIAL LINE ITEMS			
Arizona Trail Fund	150,000	0	0
Federal Contingency Funding	0	0	0
Kartchner Caverns State Park	1,954,300	2,257,100	2,226,300
AGENCY TOTAL	13,338,400	14,401,500	14,254,100
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	13,338,400	14,401,500	14,254,100
SUBTOTAL - Other Appropriated Funds	13,338,400	14,401,500	14,254,100
SUBTOTAL - Appropriated Funds	13,338,400	14,401,500	14,254,100
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	33,709,600

AGENCY DESCRIPTION — The Arizona State Parks Board is responsible for managing the state parks system, which includes recreational parks, historical parks, and natural areas. The Parks Board consists of 7 members appointed by the Governor. Major functions of the Parks Board, through its staff, include the maintenance and development of existing parks, new parks acquisitions, statewide recreational planning, and historic preservation.

Operating Budget

The Baseline includes \$12,027,800 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(116,600) from the State Parks Revenue Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Federal Contingency Funding

The Baseline includes no funding in FY 2019 for Federal Contingency Funding. This amount is unchanged from FY 2018.

The FY 2017 budget included \$1,500,000 from the State Parks Revenue Fund for contingency funding in case of a significant decrease in federal funding for that fiscal year. To spend the appropriation, the board was required to submit an agency expenditure plan for review by the Joint Legislative Budget Committee that demonstrated that the actual amount of federal funding the board would receive in FY 2017 was less than the actual amount of federal monies received by the board in FY 2016. The amount spent by the board could not exceed the estimated decrease in federal monies from FY 2016 to FY 2017.

The board did not receive a decreased amount of federal funding in FY 2017, and as a result, did not submit an expenditure plan for review. The funds were unexpended and reverted to the State Parks Revenue Fund.

Kartchner Caverns State Park

The Baseline includes \$2,226,300 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(30,800) from the State Parks Revenue Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

All Other Operating Expenditures include \$26,000 from the State Parks Revenue Fund for Fool Hollow State Park revenue sharing. If receipts to Fool Hollow exceed \$260,000 in FY 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.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the lapsing of the \$1.5 million FY 2017 supplemental from the State Parks Revenue Fund at the end of FY 2019.

STATUTORY CHANGES

The Baseline would, as session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs in FY 2019.

Other Issues

Rockin' River Ranch State Park Status

The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) included \$4.0 million from the State Parks Revenue Fund in FY 2018 for the construction of Rockin' River Ranch State Park, located in Camp Verde. This amount is available for use through the end of FY 2019. The Joint

Committee on Capital Review favorably reviewed Arizona State Parks Board's (ASPB) expenditure plan for the park's design and construction at its September 2017 meeting. During the FY 2018 budget process, ASPB had estimated a total project cost of \$9,012,600. However, as a result of the master planning process, ASPB will construct the park using only the \$4.0 million appropriated in FY 2018, rather than requesting added funds in FY 2019. ASPB plans 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.

Status of Parks

As of November 2017, 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 Quartermaster Depot). 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.
- 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%
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 Crossing	15,300	14,600	(4.6)%	-	-	-
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, Yuma Quartermaster, and Yuma Prison.

^{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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Trail Fund (PRA2525/A.R.S. § 41-511.15)		Non-Appropriated
Source of Revenue: Legislative appropriations and donations.		
Purpose of Fund: To maintain and preserve the Arizona trail.		
Funds Expended	72,500	41,800
Year-End Fund Balance	77,500	35,700
Federal Funds (PRA2000/A.R.S. § 41-511.04)		Non-Appropriated
Source of Revenue: Federal grants from the Department of the Interior, National Park Service, and other federal entities.		
Purpose of Fund: To expand and maintain the National Register of Historic Places, and to identify, evaluate and protect other historic properties. Also, to implement the State Comprehensive Outdoor Recreation Plan.		
Funds Expended	4,322,900	4,827,100
Year-End Fund Balance	9,000	8,900
Land Conservation Fund - Administration Account (PRA2432/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: Interest earnings from the Public Conservation Account, which received \$20,000,000 annually from the General Fund in FY 2001 through FY 2011, as approved by Arizona voters in November 1998. Unobligated amounts at the end of each fiscal year revert to the Public Conservation Account.		
Purpose of Fund: For operating expenses.		
Funds Expended	0	250,000
Year-End Fund Balance	262,000	12,000
Land Conservation Fund - Donation Account (PRA2432 B/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: Donations from public and private entities.		
Purpose of Fund: To match grants made to purchase state trust lands for conservation purposes. There are currently no estimates of donations that will be deposited to the account.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Land Conservation Fund - Public Conservation Account (PRA2432 C/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: As approved by Arizona voters in November 1998, the fund received \$20,000,000 annually from the General Fund in FY 2001 through 2011. Beginning in FY 2004, \$2,000,000 of this amount was deposited into the Livestock and Crop Conservation Fund, administered by the Department of Agriculture.		
Purpose of Fund: For grants to the state or any of its political subdivisions, non-profit organizations, individual landowners, and agricultural lessees of state or federal land. Grants are made to purchase or lease state trust lands that are classified as suitable for conservation purposes. The Conservation Acquisition Board will recommend appropriate grants to the Arizona State Parks Board.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Off-Highway Vehicle Recreation Fund (PRA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: Transfer from the Motor Vehicle Fuel Tax, equivalent to 0.55% of the total license taxes on motor vehicle fuel.		
Purpose of Fund: To plan, administer, and enforce off-highway vehicle recreation, and to develop facilities consistent with the off-highway vehicle plan. Sixty percent of the monies collected are to be used by the Arizona State Parks Board for planning, administration, and facilities development; the remainder is transferred to the Arizona Game and Fish Department for enforcement. The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) continues to allow the use of \$692,100 for agency operating expenses.		
Funds Expended	1,837,000	3,027,500
Year-End Fund Balance	5,659,200	5,659,200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Partnership Fund (PRA2448/A.R.S. § 41-511.04)		Non-Appropriated
Source of Revenue: Revenues received from federal, state, and local government agencies through intergovernmental agreements; reimbursements from local and county recipients of federal Land and Water Conservation grants.		
Purpose of Fund: To provide trails stewardship with funds received from the USDA Forest Service and the Bureau of Land Management; for operating costs of the multi-use water safety center at Lake Havasu State Park with funds received from the U.S. Coast Guard, Lake Havasu City, Mohave County, and the Arizona Game and Fish Department; and to administer federal Land and Water Conservation grants. Grant recipients must provide 10% of the grant amount to the Parks Board for administration.		
Funds Expended	551,300	2,696,800
Year-End Fund Balance	460,400	460,500
State Lake Improvement Fund (PRA2105/A.R.S. § 5-382)		Non-Appropriated
Source of Revenue: Primarily a transfer from the Highway User Revenue Fund, based on a formula that estimates state gasoline taxes paid for boating purposes. Also included is a portion of the watercraft license tax collected by the Arizona Game and Fish Department.		
Purpose of Fund: To fund projects at boating sites, including launching ramps, parking areas, lake improvement and construction, campgrounds, and acquisition of property to provide access to boating sites. Project grant requests are reviewed by the Arizona Outdoor Recreation Coordinating Commission and approved by the Arizona State Parks Board. Approved projects must be reviewed by the Joint Committee on Capital Review (JCCR).		
Funds Expended - Capital	958,900	8,301,400
Funds Expended - Operating (amount includes local grants)	8,382,800	8,322,300
Year-End Fund Balance	8,930,600	971,200
State Parks Fund (PRA3117/A.R.S. § 41-511.11)		Non-Appropriated
Source of Revenue: Private gifts, grants, and donations.		
Purpose of Fund: To meet the objectives of contributors, especially as they relate to acquisition, development, and preservation of the state's natural features.		
Funds Expended	110,000	350,000
Year-End Fund Balance	389,500	119,500
State Parks Revenue Fund (PRA5555/A.R.S. § 41-511.21)		Appropriated
Source of Revenue: State parks user fees and concession sales; sales of park posters, postcards, books and souvenirs; donations and legislative appropriations.		
Purpose of Fund: To fund parks operations, acquisition and development. Capital projects that are funded using these monies are subject to JCCR review. As session law, the FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) appropriated \$5,300,000 for capital projects. The appropriation for Capital Outlay is reflected below.		
Funds Expended - Operating	13,338,400	14,401,500
Funds Expended - Capital	501,100	5,300,000
Year-End Fund Balance	16,410,200	12,363,800
Sustainable State Parks and Roads Fund (PRA3125/A.R.S. § 41-511.17 and A.R.S. § 43-622)		Non-Appropriated
Source of Revenue: Voluntary contributions from individual income taxpayers via a donation on the individual income tax return form.		
Purpose of Fund: To operate, maintain and make capital improvements to buildings, roads, parking lots, highway entrances and any related structure used to operate state parks.		
Funds Expended	0	190,000
Year-End Fund Balance	194,500	83,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Yarnell Hill Memorial Fund (PRA3124/A.R.S. § 41-519.02)		Non-Appropriated
Source of Revenue: Legislative appropriations and donations to the fund. The FY 2015 Environment Budget Reconciliation Bill included a one-time appropriation of \$500,000 from the General Fund in FY 2015 to establish Yarnell Hill Memorial State Park.		
Purpose of Fund: The park was created to honor 19 Prescott firefighters who were killed fighting a wildfire near Yarnell, Arizona. The FY 2015 Environment Budget Reconciliation Bill established Yarnell Hill Memorial State Park, which opened in November 2016.		
Funds Expended	0	0
Year-End Fund Balance	3,000	3,000

State Personnel Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	45,800
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	36,600
Equipment	0	2,700	2,700
AGENCY TOTAL	323,100	378,100	375,300

FUND SOURCES

Other Appropriated Funds

Personnel Board Subaccount of the Personnel Division Fund	323,100	378,100	375,300
SUBTOTAL - Other Appropriated Funds	323,100	378,100	375,300
SUBTOTAL - Appropriated Funds	323,100	378,100	375,300
TOTAL - ALL SOURCES	323,100	378,100	375,300

AGENCY DESCRIPTION — The State Personnel Board hears appeals for covered state employees in the State Personnel System who have been dismissed, involuntarily demoted, or suspended for more than 80 hours. The board may recommend modifying or reversing the agency decision, but the agency makes the final determination. The board also hears “whistleblower” complaints concerning reprisals against employees or former employees who disclose information to a public body. If the Personnel Board finds a reprisal occurred, the employee who committed the reprisal shall be ordered by the board to pay a civil penalty of up to \$5,000, and the board shall rescind the personnel action and order all lost pay and benefits be restored to the “whistleblower.”

Operating Budget

The Baseline includes \$375,300 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,800) from the Personnel Board Subaccount of the Personnel Division Fund in FY 2019 for removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Personnel Board Subaccount of the Personnel Division Fund (PBA1107/A.R.S. § 41-750)		Appropriated
<p>Source of Revenue: A 0.03% charge on the total payroll of each agency within the Arizona Department of Administration Personnel System. Only Personnel Division Fund monies in excess of \$500,000 revert to the State General Fund at the end of each fiscal year. The state comptroller pays any monies owed to the federal government from the Personnel Division Fund before calculating the reversion. Monies contributed by the Arizona State Retirement System and by the Public Safety Personnel Retirement System are separately accounted for, do not revert to the state General Fund, and are reverted to the Arizona State Retirement System, the Public Safety Personnel Retirement System, the Elected Officials Retirement Plan or the Corrections Officer Retirement Plan, as applicable.</p> <p>Purpose of Fund: To fund Personnel Board operations.</p>		
Funds Expended	323,100	378,100
Year-End Fund Balance	236,500	347,400

Arizona State Board of Pharmacy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	437,700
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	295,000
Equipment	500	0	0
OPERATING SUBTOTAL	2,071,100	2,135,600	2,098,200
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	2,148,200
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona State Board of Pharmacy Fund	2,071,100	2,285,100	2,148,200
SUBTOTAL - Other Appropriated Funds	2,071,100	2,285,100	2,148,200
SUBTOTAL - Appropriated Funds	2,071,100	2,285,100	2,148,200
Other Non-Appropriated Funds	1,132,500	1,263,500	1,263,500
TOTAL - ALL SOURCES	3,203,600	3,548,600	3,411,700

AGENCY DESCRIPTION — The board licenses, regulates, and conducts examinations of pharmacists and issues permits to distributors of approved medications. The board also educates pharmacists and the general public on the proper distribution and use of these medications.

Operating Budget

The Baseline includes \$2,098,200 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 Baseline 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(22,400) from the Arizona State Board of Pharmacy Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Annual Leave Payout

The Baseline includes no funding in FY 2019 for annual leave payouts. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(24,500) from the Arizona State Board of Pharmacy Fund in FY 2019 for elimination of a one-time annual leave payout for employee retirements.

Prescriber Report Card

The Baseline 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:

Remove One-Time Funding

* * *

The Baseline includes a decrease of \$(75,000) from the Arizona State Board of Pharmacy Fund in FY 2019 for the elimination of one-time funding.

FORMAT — Operating Lump Sum with Special Line Items by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Controlled Substances Prescription Monitoring Program Fund (PMA2359/A.R.S. § 36-2605)		Non-Appropriated
Source of Revenue: Legislative appropriations, transfers from the Arizona State Board of Pharmacy Fund, and any grants, gifts, or donations. Up to \$500,000 can be transferred from the Arizona State Board of Pharmacy Fund each year, according to A.R.S. § 32-1907. The transfer is not displayed in the Arizona State Board of Pharmacy Fund expenditures to avoid double counting.		
Purpose of Fund: For program expenses, which include automated tracking of controlled substances, assisting law enforcement in identifying illegal use of controlled substances, and providing information to patients, medical practitioners, and pharmacists.		
Funds Expended	1,132,500	1,263,500
Year-End Fund Balance	203,200	194,000
Federal Grants (PMA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal reimbursements and grants.		
Purpose of Fund: Reimbursements for services provided to the federal government and one-time grant to help implement a prescription monitoring program.		
Funds Expended	0	0
Year-End Fund Balance	4,800	0
Arizona State Board of Pharmacy Fund (PMA2052/A.R.S. § 32-1907)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of pharmacies and pharmacists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate pharmacies and pharmacists, and for board administration. Pursuant to A.R.S. § 32-1907 up to \$1,000,000 may be transferred to the Arizona Poison and Drug Information Center. Additionally, \$500,000 may be transferred to the Controlled Substance Prescription Monitoring Program Fund. These transfers are a "transfer out" and are not displayed in expenditures to avoid double counting.		
Funds Expended	2,071,100	2,285,100
Year-End Fund Balance	5,373,800	5,988,500

Board of Physical Therapy

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	95,200
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	66,400
Equipment	7,300	3,100	3,100
AGENCY TOTAL	438,100	448,000	441,200

FUND SOURCES

<u>Other Appropriated Funds</u>			
Board of Physical Therapy Fund	438,100	448,000	441,200
SUBTOTAL - Other Appropriated Funds	438,100	448,000	441,200
SUBTOTAL - Appropriated Funds	438,100	448,000	441,200
TOTAL - ALL SOURCES	438,100	448,000	441,200

AGENCY DESCRIPTION — The board licenses and regulates physical therapists. A physical therapist treats patients by exercise, massage, mechanical energy, electrical energy, heat, light, sound, and water. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The Baseline includes \$441,200 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(6,800) from the Board of Physical Therapy Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions section.)

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Physical Therapy Fund (PTA2053/A.R.S. § 32-2004)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of physical therapists, and physical therapy assistants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate physical therapists, and physical therapy assistants, and for board administration.		
Funds Expended	438,100	448,000
Year-End Fund Balance	1,125,700	769,900

Arizona Pioneers' Home

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	1,507,900
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	20,100
OPERATING SUBTOTAL	5,888,100	6,405,600	6,292,600
SPECIAL LINE ITEMS			
Prescription Drugs	142,800	200,000	200,000
AGENCY TOTAL	6,030,900	6,605,600	6,492,600
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Miners' Hospital for Miners with Disabilities Fund	1,972,500	2,057,700	2,028,900
State Charitable Fund	4,058,400	4,547,900	4,463,700
SUBTOTAL - Other Appropriated Funds	6,030,900	6,605,600	6,492,600
SUBTOTAL - Appropriated Funds	6,030,900	6,605,600	6,492,600
Other Non-Appropriated Funds	26,800	6,200	6,200
TOTAL - ALL SOURCES	6,057,700	6,611,800	6,498,800

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 Baseline includes \$6,292,600 and 106.3 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
Miners' Hospital for Miners with Disabilities Fund	\$2,028,900
State Charitable Fund	4,263,700

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(113,000) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

Miners' Hospital for Miners with Disabilities Fund	(28,800)
State Charitable Fund	(84,200)

(Please see the Technical Budget Assumptions section.)

Prescription Drugs

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated for the Arizona Pioneers' Home and the State Hospital for Miners with Disabilities in compliance with the Enabling Act and the Constitution of Arizona.

Other Issues

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 appropriation of \$2,057,700. 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 appropriation of \$4,547,900. The State Charitable Fund may be used for any charitable purpose within a state institution.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Miners' Hospital for Miners with Disabilities Fund (PIA3130/A.R.S. § 37-525)		Appropriated
<i>Source of Revenue:</i> Interest on the Miners' Hospital Fund as established through Arizona's Enabling Act, Section 25, and monies derived from the rental of these lands and property.		
<i>Purpose of Fund:</i> To provide a continuous source of funds to benefit the Arizona Pioneers' Home.		
Funds Expended	1,972,500	2,057,700
Year-End Fund Balance	4,424,900	6,360,300
Pioneers' Home Fund (Cemetery Proceeds) (PIA3144/A.R.S. § 41-926)		Non-Appropriated
<i>Source of Revenue:</i> Cemetery proceeds from the sale of interment rights or the lease of cemetery land.		
<i>Purpose of Fund:</i> To defray expenses or work conducted by the Arizona Pioneers' Home and the Arizona Pioneers' Home Cemetery.		
Funds Expended	0	0
Year-End Fund Balance	271,200	321,200
Pioneers' Home Fund (Donations) (PIA3143/A.R.S. § 41-926)		Non-Appropriated
<i>Source of Revenue:</i> Donations or contributions from private sources.		
<i>Purpose of Fund:</i> To defray expenses or work conducted by the Arizona Pioneers' Home in serving its clientele.		
Funds Expended	17,000	0
Year-End Fund Balance	168,400	170,400
State Charitable Fund (PIA3129/A.R.S. § 37-525)		Appropriated
<i>Source of Revenue:</i> Earnings from the Pioneers' Home's share of the State Charitable, Penal and Reformatory Grant lands.		
<i>Purpose of Fund:</i> For the operation of the Pioneers' Home.		
Funds Expended	4,058,400	4,547,900
Year-End Fund Balance	5,453,900	6,576,700
Statewide Employee Recognition Gifts Fund (PIA2449/A.R.S. § 41-709)		Non-Appropriated
<i>Source of Revenue:</i> Donations, gifts, or contributions from public or private sources.		
<i>Purpose of Fund:</i> For the conduct of employee recognition programs.		
Funds Expended	9,800	6,200
Year-End Fund Balance	12,800	26,600

State Board of Podiatry Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	28,500
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	32,700
AGENCY TOTAL	135,400	149,700	148,400

FUND SOURCES

Other Appropriated Funds

Podiatry Fund	135,400	149,700	148,400
SUBTOTAL - Other Appropriated Funds	135,400	149,700	148,400
SUBTOTAL - Appropriated Funds	135,400	149,700	148,400
TOTAL - ALL SOURCES	135,400	149,700	148,400

AGENCY DESCRIPTION — The board licenses and regulates Doctors of Podiatric Medicine. A podiatrist must take specialized training, serve an internship and pass a qualifying examination prior to licensure to diagnose and treat foot ailments. This agency is one of several housed within the Arizona Department of Administration Central Services Bureau.

Operating Budget

The Baseline includes \$148,400 and 1 FTE Position from the Podiatry Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,300) from the Podiatry Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Podiatry Fund (POA2055/A.R.S. § 32-806)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of podiatrists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate podiatrists, and for board administration.		
Funds Expended	135,400	149,700
Year-End Fund Balance	161,500	121,800

Commission for Postsecondary Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	85,000	118,900	118,900
Employee Related Expenditures	30,800	58,700	51,700
Other Operating Expenditures	22,100	13,000	13,000
Equipment	700	0	0
OPERATING SUBTOTAL	138,600	190,600	183,600
SPECIAL LINE ITEMS			
Arizona College and Career Guide	5,400	21,300	21,300
Arizona Minority Educational Policy Analysis Center	24,500	100,000	100,000
Arizona Teacher Student Loan Program	176,000	426,000	426,000
College-Readiness Examination Pilot Program	0	235,000	235,000
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500
Twelve Plus Partnership	8,700	130,500	130,500
AGENCY TOTAL	2,672,700	3,422,900	3,415,900
FUND SOURCES			
General Fund	1,396,800	1,881,800	1,881,800
<u>Other Appropriated Funds</u>			
Postsecondary Education Fund	1,275,900	1,541,100	1,534,100
SUBTOTAL - Other Appropriated Funds	1,275,900	1,541,100	1,534,100
SUBTOTAL - Appropriated Funds	2,672,700	3,422,900	3,415,900
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	4,459,300

AGENCY DESCRIPTION — The Commission for Postsecondary Education reviews and recommends higher education policies, while providing a discussion forum for public and private postsecondary educational institutions and their stakeholders on issues of mutual interest. The 16 commissioners are authorized to administer certain federal and state student financial aid programs.

Operating Budget

The Baseline includes \$183,600 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(7,000) from the Postsecondary Education Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions section.)

Arizona College and Career Guide

The Baseline 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 Baseline 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 Baseline 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 Baseline includes \$235,000 from the General Fund in FY 2019 for a College Readiness Examination Pilot Program. This amount is unchanged from FY 2018.

The K-12 Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 304) appropriated \$235,000 from the General Fund in FY 2018 for a one-year College-Readiness Examination Pilot Program. The 3-year funding plan for FY 2018 through FY 2020 did not delete the funding. For this reason, the Baseline continues the appropriation.

The K-12 BRB requires monies in this line item to be used to provide grants to school districts and charter schools for administration of college-readiness exams to 11th grade high school students. The exam must be provided free of charge, be nationally recognized, and include tests in English, reading, mathematics and science.

The Commission for Postsecondary Education is required to submit a report 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.

The program is scheduled to terminate on January 1, 2019.

Leveraging Educational Assistance Partnership

The Baseline 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. *(Please see Other Issues for more information.)*

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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The appropriations for the Arizona College and Career Guide, Arizona Minority Educational Policy Analysis Center and Twelve Plus Partnership are estimates representing all monies distributed to 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.

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.

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.

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Family College Savings Program Trust Fund (PEA3121/A.R.S. § 15-1873B)		Non-Appropriated
Source of Revenue: Fees paid by financial institutions which are contracted to serve as program managers of assets.		
Purpose of Fund: For operating expenses and administrative costs of the Arizona Family College Savings Program.		
Funds Expended	642,900	819,300
Year-End Fund Balance	587,100	529,800
Federal Grants (PEA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grant revenue.		
Purpose of Fund: Federal grant revenues to be used by the commission as specified by the grant(s).		
Funds Expended	0	129,700
Year-End Fund Balance	0	11,800
Postsecondary Education Fund (PEA2405/A.R.S. § 15-1853)		Partially-Appropriated
Source of Revenue: Monies appropriated by the Legislature, monies received from state agencies and political subdivisions of the state, monies received from the federal government, and/or private gifts, grants and donations. The commission must separately account for monies received from each source.		
Purpose of Fund: For designated purposes. Donations are used in accordance with the requests of the donor. Other private monies are used to carry out the duties and responsibilities of the commission.		
Appropriated Funds Expended	1,275,900	1,541,100
Non-Appropriated Funds Expended	85,700	94,400
Year-End Fund Balance	132,300	99,700

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Private Postsecondary Education Grant Fund (PEA2530/A.R.S. § 15-1855)		Non-Appropriated
Source of Revenue: Monies appropriated by the Legislature and private gifts, grants, and donations. Program is not currently funded.		
Purpose of Fund: For tuition grants awarded to students enrolled at a private postsecondary institution and seeking an associate or baccalaureate degree in science, technology, engineering, or math (STEM) related fields. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Private Postsecondary Education Student Financial Assistance Fund (PEA2128/A.R.S. § 15-1854)		Non-Appropriated
Source of Revenue: Monies appropriated by the Legislature. Program is not currently funded.		
Purpose of Fund: For tuition grants awarded to eligible graduates of Arizona community colleges enabling them to obtain a bachelor's degree at a private college or university in the state. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	1,000	6,300
Arizona Teacher Student Loan Fund (PEA2358/A.R.S. § 15-1784)		Non-Appropriated
Source of Revenue: Legislative appropriations and repayments of principal and interest of issued loans.		
Purpose of Fund: To provide up to 5-year loans to eligible in-state students pursuing a teaching degree or certificate in mathematics, science, and special education at a state university and who agree to a service commitment to teach in a public school. Laws 2017, Chapter 244 expanded the program to teachers practicing in rural, low-income, and tribal schools and re-named the fund from the Mathematics, Science, and Special Education Teacher Student Loan Fund to the Arizona Teacher Student Loan Fund. General Fund expenditures are not displayed to avoid double counting.		
Funds Expended	17,000	0
Year-End Fund Balance	314,800	364,800
Teachers Incentive Program Fund (PEA2249/A.R.S. § 15-1851)		Non-Appropriated
Source of Revenue: Monies collected as repayment from students who do not meet the conditions of the loan program.		
Purpose of Fund: To collect repayment monies from students who received a loan in prior years for teacher education and did not fulfill their teaching obligation. The students' teacher loan indebtedness to the State of Arizona is forgiven if the recipient of the monies completes a specified period of time teaching in designated school districts, which are identified as having high proportions of economically disadvantaged and at-risk pupils. Monies collected are reverted to the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Arizona Power Authority

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Hoover Uprating Fund (PAA1113/A.R.S. § 30-202)		Non-Appropriated
Source of Revenue: The sale of hydro-electricity from Hoover Dam to APA customers.		
Purpose of Fund: To purchase hydro-electricity from Hoover Dam for APA customers.		
Funds Expended	28,172,000	22,209,200
Year-End Fund Balance	0	0
Interest Income Fund (PAA1112/A.R.S. § 30-203)		Non-Appropriated
Source of Revenue: Interest income from investments with the Arizona State Treasurer.		
Purpose of Fund: To pay for the operating expenses of the Power Authority.		
Funds Expended	34,700	7,000
Year-End Fund Balance	0	0
Power Authority Fund (PAA9506/A.R.S. § 30-202)		Non-Appropriated
Source of Revenue: Energy sales to any of the authority's 39 customers.		
Purpose of Fund: To purchase supplemental energy on the open market (usually from Salt River Project) for APA customers and to fund special APA projects.		
Funds Expended	6,102,200	3,268,800
Year-End Fund Balance	0	0

State Board for Private Postsecondary Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	86,200
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	40,200
Equipment	500	5,800	5,800
OPERATING SUBTOTAL	361,300	400,200	396,100
SPECIAL LINE ITEMS			
Annual Leave Payout	0	20,800	0
AGENCY TOTAL	361,300	421,000	396,100

FUND SOURCES

Other Appropriated Funds

Board for Private Postsecondary Education Fund	361,300	421,000	396,100
SUBTOTAL - Other Appropriated Funds	361,300	421,000	396,100
SUBTOTAL - Appropriated Funds	361,300	421,000	396,100
Other Non-Appropriated Funds	420,500	304,500	304,500
TOTAL - ALL SOURCES	781,800	725,500	700,600

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 Baseline includes \$396,100 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(4,100) from the Board for Private Postsecondary Education Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Annual Leave Payout

The Baseline includes no funding from the Board for Private Postsecondary Education Fund in FY 2019 for an

annual leave payout for the retiring Executive Director. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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.

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FORMAT — Lump Sum by Agency

Other Issues

One-Time Relocation Costs

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board for Private Postsecondary Education Fund (PVA2056/A.R.S. § 32-3004)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of private postsecondary institutions. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate private postsecondary institutions. Monies are also used for board administration costs.		
Funds Expended	361,300	421,000
Year-End Fund Balance	444,300	353,100
Student Tuition Recovery Fund (PVA3027/A.R.S. § 32-3072)		Non-Appropriated
Source of Revenue: Assessments on prepaid tuition paid by newly enrolled students at private postsecondary institutions. Pursuant to A.R.S. § 32-3072, if the fiscal year-end fund balance exceeds \$500,000, only newly or provisionally licensed institutions pay the assessment.		
Purpose of Fund: To compensate persons suffering damages as the result of a private postsecondary institution ceasing operations.		
Funds Expended	420,500	304,500
Year-End Fund Balance	401,000	340,500

State Board of Psychologist Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	94,400
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	88,900
Equipment	8,900	0	0
AGENCY TOTAL	446,400	480,600	475,400

FUND SOURCES

Other Appropriated Funds

Board of Psychologist Examiners Fund	446,400	480,600	475,400
SUBTOTAL - Other Appropriated Funds	446,400	480,600	475,400
SUBTOTAL - Appropriated Funds	446,400	480,600	475,400
TOTAL - ALL SOURCES	446,400	480,600	475,400

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 Baseline includes \$475,400 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,200) from the Board of Psychologist Examiners Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Psychologist Examiners Fund (SYA2058/A.R.S. § 32-2065)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of psychologists. A separate account has been established within the Board of Psychologist Examiners Fund consisting of licensing and other fees for behavior analysts. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate psychologists and behavior analysts, and for board administration.		
Funds Expended	446,400	480,600
Year-End Fund Balance	918,700	975,300

Department of Public Safety

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,956.7	1,945.7	1,945.7
Personal Services	102,135,200	108,459,100	108,459,100
Employee Related Expenditures	82,830,400	91,074,400	88,687,800
Professional and Outside Services	3,400,200	2,459,700	2,459,700
Travel - In State	381,500	450,600	450,600
Travel - Out of State	448,400	337,900	337,900
Other Operating Expenditures	31,175,800	28,502,100	28,502,100
Equipment	5,612,000	7,869,100	7,169,100
OPERATING SUBTOTAL	225,983,500	239,152,900	236,066,300
SPECIAL LINE ITEMS			
ACTIC	1,140,200	1,450,000	1,450,000
Border Strike Task Force Ongoing	6,480,100	7,059,300	7,003,200
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
GIITEM	21,744,200	22,254,400	23,269,500
GIITEM Subaccount	2,227,400	2,390,000	2,390,000
Law Enforcement Officer Virtual Training	291,500	0	0
Public Safety Equipment	2,783,300	2,890,000	2,890,000
Motor Vehicle Fuel	3,634,300	5,454,600	5,454,600
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	279,935,300
FUND SOURCES			
General Fund	114,214,600	109,614,200	108,654,600
<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	1,409,800
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	2,873,400
Deoxyribonucleic Acid (DNA) Identification System Fund	4,637,300	4,970,100	0
DPS Forensics Fund	0	0	22,369,300
Drug and Gang Prevention Resource Center Fund	1,000,000	0	0
Fingerprint Clearance Card Fund	0	700,000	0
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,227,400	2,527,700	2,527,700
Highway Patrol Fund	24,113,200	25,474,400	24,992,800
Highway User Revenue Fund	95,908,400	99,398,700	99,398,700
Motorcycle Safety Fund	0	205,000	205,000
Parity Compensation Fund	2,129,400	3,422,300	3,397,400
Public Safety Equipment Fund	2,783,300	3,893,700	2,893,700
Risk Management Revolving Fund	1,263,700	1,314,200	1,314,200
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,551,800	1,634,400	1,617,800

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
State Aid to Indigent Defense Fund	561,900	700,000	700,000
State Highway Fund	7,301,800	8,713,500	7,580,900
SUBTOTAL - Other Appropriated Funds	165,818,600	174,648,700	171,280,700
SUBTOTAL - Appropriated Funds	280,033,200	284,262,900	279,935,300
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	378,351,800

AGENCY DESCRIPTION — The Department of Public Safety (DPS) is responsible for the enforcement of state criminal laws and traffic regulations. In addition to the Highway Patrol, DPS operates and maintains statewide communications systems, state crime laboratories and an automated fingerprint identification network, and performs aviation missions, special investigations, and other law enforcement activities.

Operating Budget

The Baseline includes \$236,066,300 and 1,771.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$71,973,700
Concealed Weapons Permit Fund	1,409,800
Criminal Justice Enhancement Fund (CJEF)	2,739,100
DPS Forensics Fund	22,369,300
Highway Patrol Fund	24,694,400
Highway User Revenue Fund (HURF)	98,761,000
Motorcycle Safety Fund	205,000
Parity Compensation Fund	3,397,400
Public Safety Equipment Fund	3,700
Risk Management Revolving Fund	1,314,200
Safety Enforcement and Transportation	1,617,800
Infrastructure Fund (SETIF) DPS Subaccount	
State Highway Fund	7,580,900

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(700,000) from the Fingerprint Clearance Card Fund in FY 2019 for crime laboratory equipment replacement. The FY 2018 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 303) modified statute to allow appropriated expenditures from the Fingerprint Clearance Card Fund for the purpose of purchasing crime laboratory equipment.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,386,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(718,600)
AFIS Fund	(2,100)
Concealed Weapons Permit Fund	(10,200)
Highway Patrol Fund	(481,600)
Parity Compensation Fund	(24,900)
SETIF DPS Subaccount	(16,600)
State Highway Fund	(1,132,600)

(Please see the Technical Budget Assumptions section.)

DPS Forensics Fund Shift

The Baseline 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.

ACTIC

The Baseline 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 Baseline includes \$7,003,200 and 37 FTE Positions from the General Fund in FY 2019 for the Border Strike Task Force (BSTF). FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(56,100) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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, \$761,700 shall be used to fund 75% of the costs for 8 local law enforcement officers that will participate in the BSTF. The participating local law enforcement agency will be responsible for providing a 25% match to these amounts. The remaining \$500,000 shall be used for grants to local governments for the prosecution and imprisonment of individuals that are charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

At the 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 standard footnote has required DPS to submit an expenditure plan for this line item to JLBC for review. The Baseline changes this requirement to require DPS to submit a report on planned FY 2019 expenditures by September 1, 2018. (Please see Footnotes section.)

The Legislature may consider reviewing this and other local public safety funding distributions for potential consolidation. (Please see "Local Funding Consolidation" in the Other Issues section for more detail.)

GIITEM

The Baseline includes \$23,269,500 and 136.8 FTE Positions in FY 2019 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). This amount consists of:

General Fund	23,131,800
GIITEM Border Security and Law Enforcement Subaccount	137,700

FY 2019 adjustments are as follows:

Remove One-Time Sexual Assault Kit Shift

The Baseline includes an increase of \$1,200,000 from the General Fund in FY 2019 to remove a one-time shift for Sexual Assault Kits. 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(184,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$9,709,200 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) \$2,603,400 for local gang and immigration enforcement grants; and 4) \$600,000 for crime analysts associated with the state gang intelligence database (GangNet).

Monies deposited in the GIITEM Fund can be used for employer sanctions, smuggling, gang, and immigration enforcement. Local grants are distributed to county sheriffs and do not require further approval by the county board of supervisors. The local entity provides at least 25% of the cost of services.

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 Baseline 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 3 in the Other Issues section for more information on actual expenditures.)*

The Baseline would require DPS to submit an expenditure and progress report to JLBC annually, rather than quarterly for this line item.

The Legislature may consider reviewing this and other local public safety funding distributions for potential consolidation. *(Please see "Local Funding Consolidation" in the Other Issues section for more detail.)*

GIITEM Subaccount

The Baseline includes \$2,390,000 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. This amount is unchanged from FY 2018.

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.)*

The Legislature may consider reviewing this and other local public safety funding distributions for potential consolidation. *(Please see "Local Funding Consolidation" in the Other Issues section for more detail.)*

Public Safety Equipment

The Baseline 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.

Motor Vehicle Fuel

The Baseline 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.

Civil Air Patrol

The Baseline 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 Baseline includes no funding from PSEF in FY 2019 for Camera IT Infrastructure. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

~~Before the expenditure of any monies appropriated in FY 2018 in THE DEPARTMENT OF PUBLIC SAFETY SHALL REPORT TO THE JOINT LEGISLATIVE BUDGET COMMITTEE AND THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING BY SEPTEMBER 1, 2018 ON ITS EXPENDITURE PLAN FOR the Border Strike Task Force Local Support line item, the department shall submit an expenditure plan for this line item to the Joint Legislative Budget Committee for review IN FY 2019. (The Baseline changes the requirement from a JLBC review to a report only.)~~

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.

Of the \$1,261,700 appropriated for the Border Strike Task Force Local Support line item, \$500,000 shall be used for grants to cities, towns or counties for costs associated with the prosecution and imprisonment of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

Of the \$23,269,500 appropriated to the GIITEM line item, only \$2,603,400 is deposited in the GIITEM Fund established by A.R.S. § 41-1724, and is appropriated for the purposes of that section. The \$2,603,400 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. This state recognizes that states have inherent authority to arrest a person for any immigration violation.

Of the \$23,269,500 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.

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.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote associated with one-time funding for Sexual Assault Kit testing.

STATUTORY CHANGES

The Baseline would:

- As permanent law, require DPS to report GIITEM expenditures and progress annually, rather than quarterly.
- As session law, continue to require DPS to receive JLBC review of the expenditure plan for the GIITEM

Subaccount FY 2019 appropriation prior to its expenditure.

- As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF.
- As session law, continue to allow DPS to expend \$137,700 from the GIITEM Subaccount for costs related to an increase in the PSPRS employer contribution rate.
- As session law, continue to allow DPS to expend monies from the State Aid to Indigent Defense Fund for ACTIC operating expenses.
- As session law, continue to allocate \$400,000 from the GIITEM General Fund distribution to the Pima County Sheriff's Office.

Other Issues

Long-Term Budget Impacts: HURF Funding

The Baseline continues to effectively eliminate the previously approved HURF shift in FY 2019. There are 2 components to this elimination.

First, the FY 2015 budget permanently reduced HURF funding of DPS Highway Patrol expenses from \$119.3 million to \$89.3 million and backfilled the reduction with a commensurate amount of General Fund monies. This \$30.0 million in "freed up" funds was dedicated entirely to local governments. Under permanent law, increased HURF funds are typically split evenly between local distributions and state highway construction.

The FY 2015 Revenue BRB allocated the \$30.0 million entirely to local jurisdictions as follows: 33.231% to counties, 48.097% to cities and towns, 5.247% to cities with a population larger than 300,000 individuals, and 13.425% to counties with a population of more than 800,000 individuals. These monies were distributed among local jurisdictions in the same proportions as the local share of regular HURF allocations. The impact of this shift is displayed in *Table 1*.

<u>Beneficiaries</u>	<u>Increase</u>	<u>FY 2019 Total</u>
Cities	\$16.0 ^{1/}	\$435.4
Counties	10.0	271.2
Controlled Access State Highway	4.0 ^{2/}	107.9
Construction	0.0	115.0
Total	\$30.0	\$929.5

^{1/} Includes \$1.6 million for Phoenix, Tucson, and Mesa.
^{2/} These monies are for distribution to Maricopa and Pima Counties.

The FY 2015 Revenue BRB continued the FY 2015 \$30.0 million distribution to local governments in FY 2016 and increased the level to \$60.0 million in FY 2017. However, the FY 2016 Revenue BRB (Laws 2015, Chapter 10) reduced the FY 2017 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 addressed on a one-time basis in the FY 2017 Revenue BRB. The legislation appropriated \$30.0 million in one-time General Fund monies that were allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. In addition to the previously mentioned permanent \$30.0 million HURF 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 Revenues BRB (Laws 2017, Chapter 312) continued the elimination of the HURF shift in FY 2018. The one-time \$30.0 million General Fund deposit is replaced by a FY 2018 appropriation of \$30.0 million from the Highway Expansion and Extension Loan Program (HELP) Fund. These monies will be allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. This HELP Fund appropriation along with the permanent \$30.0 million distribution from FY 2015 held local government's harmless again in FY 2018.

The FY 2018 Revenues BRB appropriated \$30.0 million from the HELP Fund again in FY 2019 for local HURF. Along with the permanent \$30.0 million distribution from FY 2015, local governments are again held harmless in FY 2019.

The FY 2018 Revenues BRB also requires \$60.0 million to be distributed directly to local HURF in FY 2020 to continue to hold local governments harmless. This \$60.0 million would consolidate the permanent \$30.0 million local distribution originated in the FY 2015 budget and the \$30.0 million local distributions designated in the FY 2017 through FY 2019 budgets.

Given that the HELP fund balance is projected to be depleted at the end of FY 2019, the FY 2018 Revenues BRB includes a legislative intent statement regarding FY 2020. The Legislature intends to reduce the DPS HURF appropriation by \$(30.0) million in FY 2020 and replace

those monies with a \$30.0 million General Fund appropriation. The FY 2020 column of the enacted FY 2018 budget's 3-year spending plan displayed this General Fund appropriation as ongoing. The Baseline assumes it continues into FY 2021.

HURF receives revenues from transportation-related licenses, fees, and taxes such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, and driver's licenses. A.R.S. § 28-6537 and A.R.S. § 28-6993 cap the amount of highway user revenue monies distributed to DPS at \$10.0 million per year for both HURF and the State Highway Fund (the latter being a beneficiary of the HURF distribution formula). A series of session law provisions have notwithstanding these caps in most years since FY 2002, but in FY 2012 this provision was eliminated for the State Highway Fund. Table 2 reflects DPS expenditures from HURF and the State Highway Fund. (Please see ADOT Capital section for more information on the HURF distribution formula.)

Table 2
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	99.4	7.6	107.0

Automation Projects Fund - Arizona Criminal Justice Information System

The Baseline includes no funding to the Arizona Department of Administration for continuing upgrades to the Arizona Criminal Justice Information System (ACJIS). FY 2019 adjustments are as follows:

Concealed Weapons Permit Fund	(1,000,000)
Fingerprint Clearance Card Fund	(1,343,000)

Completion of the project is contingent upon additional funding in FY 2019 and FY 2020 totaling \$5,100,000. Without this funding, DPS reports that none of the components could be completed and that an incomplete project could complicate how users get their information from DPS.

Once completed, DPS expects ongoing maintenance costs of \$300,000 to \$400,000, which DPS plans to pay for using their existing base budget.

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 begin the process of upgrading ACJIS applications to a modern coding language which will allow for increased access by state and local users and help prepare the program for an eventual migration from the mainframe computer to another data storage system.

If this project is funded again in FY 2019, the JLBC Staff recommends that the resources be appropriated directly to DPS rather than ADOA. This shift will align resources with the agency actually expending the funds for this project.

Automation Projects Fund - Microwave System Upgrades

The Baseline includes no funding to the Arizona Department of Administration for upgrades to the statewide Microwave Radio System. FY 2019 adjustments are as follows:

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

The statewide Microwave Radio System is a series of towers situated on mountain tops and divided into 3 loops that allow law enforcement and other state and local agencies to communicate with dispatch centers while in the field. In CY 2007, DPS began upgrading the statewide Microwave Radio System from analog to digital technology. Of the 3 loops, work on the southern loop was completed in FY 2011 and work on the western loop

will be completed in FY 2018. The department estimates that \$13,699,300 in funding is necessary in FY 2019 through FY 2021 to complete the northern loop.

If this project is funded again in FY 2019, the JLBC Staff recommends that the resources be appropriated directly to DPS rather than ADOA. This shift will align resources with the agency actually expending the funds for this project.

Local Funding Consolidation

In order to better display the total amount of DPS funding distributed to local law enforcement, the Legislature may also consider reviewing the various local public safety funding distributions for potential consolidation. Local law enforcement receives funding through DPS from the following programs:

- Border Strike Task Force Local Support Line Item - The FY 2019 Baseline includes \$1,261,700. Footnotes require that \$761,700 be used to fund 75% (with 25% local match) of 8 local law enforcement officers participating in the BSTF.
- GIITEM Line Item - The FY 2018 budget appropriated \$1.4 million for local gang and immigration enforcement grants. The Baseline increases this funding to \$2.6 million in FY 2019 after a one-time reduction to pay for sexual assault kit testing.
- GIITEM Line Item - The GIITEM line item includes \$9.8 million for gang enforcement, investigation, and interdiction. This funding is often used by DPS to supplement funding to local governments. DPS typically distributes about \$1.5 million from this appropriation to local law enforcement.
- GIITEM Subaccount Line Item - The FY 2019 Baseline includes \$2.4 million for DPS to purchase equipment and supplies for border security. The Criminal Justice BRB requires JLBC review of the expenditure plan. In FY 2018, JLBC approved the following distribution: \$515,000 for the Detention Liaison Officer Program, \$475,000 for Border County Officers, \$350,000 for Border Crimes Unit, and \$1,050,000 for Border Security and Law Enforcement Grants.

Table 3

State Immigration Enforcement Assistance to Local Governments 1/

DPS GIITEM Local Immigration Enforcement Grant Expenditures 2/

<u>Agency</u>	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Estimate 3/</u>	<u>FY 2018 Estimate 3/</u>
Pima County Sheriff's Department	-	-	-	-	-	\$ 400,000
Phoenix Police Department	-	-	-	-	-	-
Border Detention Liaison Officers (See Chart Below)	-	-	-	-	-	-
Border County Officers (See Chart Below)	-	-	-	-	-	-
Maricopa County Sheriff's Office	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	-
DPS Expenditures in Support of Local Grants	327,900	428,600	131,700	413,800	503,400	503,400
Pinal County Sheriff's Department	500,000	500,200	500,000	500,000	500,000	500,000
TOTAL	\$2,427,900	\$2,528,800	\$2,231,700	\$2,513,800	\$2,603,400	\$1,403,400

Year of Appropriation of Funding

FY 2012	\$189,300	-	-	-	-	-
FY 2013	2,238,600	\$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
TOTAL	\$2,427,900	\$2,528,800	\$2,231,700	\$2,513,900	\$2,603,400	\$1,403,400

Detention Liaison Officer Grants 4/

	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate 5/</u>
Cochise County Sheriff's Office	\$39,800	\$5,500	\$40,500	\$40,500	\$37,500	\$37,500
Graham County Sheriff's Office	31,200	15,200	-	-	-	-
Maricopa County Sheriff's Office	-	-	44,100	41,100	89,200	-
Pima County Sheriff's Office	44,500	56,700	91,900	86,100	87,300	87,300
Pinal County Sheriff's Office	58,700	-	40,000	35,200	47,700	47,700
Santa Cruz County Sheriff's Office	-	24,800	30,400	-	-	52,100
Yuma County Sheriff's Office	42,400	35,800	43,200	37,400	-	52,100
Department of Corrections	180,400	263,000	205,400	205,000	238,300	238,300
Total	\$397,000	\$401,000	\$495,500	\$445,300	\$500,000	\$515,000

Table 3 (Continued)

	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate 5/
Border County Officers 4/						
Benson Police	\$63,000	\$36,300	\$0	-	-	-
Cochise County Sheriff's Office	-	-	41,600	\$100,500	\$191,600	\$201,900
Coolidge Police	62,900	66,200	44,300	28,600	64,200	74,500
Douglas Police	124,800	102,600	115,000	-	-	-
Eloy Police	-	-	-	-	56,400	-
Oro Valley Police	54,800	47,300	63,300	62,500	66,700	77,000
Pinal County Sheriff's Office	45,700	89,700	-	-	-	-
San Luis Police	-	-	-	-	56,400	66,700
Somerton Police	-	-	-	22,300	44,500	54,900
Yuma County Sheriff's Office	-	47,900	56,100	-	-	-
Unallocated	-	-	-	-	10,200	-
Total	\$351,200	\$390,000	\$320,300	\$213,900	\$490,000	\$475,000
Border Security and Law Enforcement Grants 4/						
Apache County Sheriff's Office	-	\$11,600	\$11,500	\$12,000	\$70,000	\$0
Cochise County Sheriff's Office	-	20,800	20,900	500,000	70,000	350,000
Coconino County Sheriff's Office	-	-	-	-	70,000	0
Gila County Sheriff's Office	-	8,400	8,600	10,000	70,000	0
Graham County Sheriff's Office	-	-	-	9,300	70,000	0
Greenlee County Sheriff's Office	-	-	1,700	2,000	70,000	0
La Paz County Sheriff's Office	-	3,200	3,300	3,500	70,000	0
Maricopa County Sheriff's Office	-	627,700	629,400	100,000	70,000	0
Mohave County Sheriff's Office	-	32,200	32,500	33,000	70,000	0
Mohave County Sheriff's Office	-	16,900	17,300	18,000	70,000	0
Navajo County Sheriff's Office	-	156,600	158,900	50,000	70,000	0
Pima County Sheriff's Department	-	61,100	62,800	100,000	70,000	0
Pinal County Sheriff's Office	-	7,500	7,900	36,800	70,000	350,000
Santa Cruz Sheriff's Office	-	33,600	34,000	35,000	70,000	0
Yavapai County Sheriff's Office	-	-	33,400	112,000	70,000	350,000
Yuma County Sheriff's Office	-	-	-	-	-	-
Total	\$0	\$979,600	\$1,022,200	\$1,021,600	\$1,050,000	\$1,050,000

GIITEM Subaccount Expenditures 6/

Agency	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate	FY 2018 Estimate 5/
Pima County Sheriff	\$500,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
General Fund Repayment	-	-	-	-	-	-
Border Detention Liaison Officers (See Chart Above)	397,000	401,000	495,500	495,500	500,000	515,000
Border County Officers (See Chart Above)	351,200	390,000	320,300	320,300	490,000	475,000
Border Security and Law Enforcement Grants (See Chart Above)	0	979,600	1,022,200	1,022,200	1,050,000	1,050,000
TOTAL	\$1,248,200	\$2,120,600	\$2,188,000	\$2,188,000	\$2,390,000	\$2,390,000

Table 3 (Continued)

Border Strike Task Force Local Support 7/8/

Agency	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
	Actual	Actual	Actual	Actual	Estimate	Estimate
Cochise County Sheriff	-	-	-	-	\$601,100	\$642,700
Pima County Sheriff	-	-	-	-	410,600	452,300
Santa Cruz County Sheriff	-	-	-	-	125,000	166,700
Yuma County Sheriff	-	-	-	-	125,000	-
TOTAL					\$1,261,700	\$1,261,700

County Attorney Immigration Enforcement Distributions 9/10/

Agency	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
	Actual	Actual	Actual	Actual	Estimate	Estimate
Maricopa County Attorney	\$200,000	\$200,000	-	-	-	-
Maricopa County Sheriff	500,000	500,000	-	-	-	-
Pima County Attorney	97,687	97,687	\$97,687	-	-	-
Pima County Sheriff	97,687	-	-	-	-	-
Pinal County Attorney	37,447	37,447	37,447	-	-	-
Pinal County Sheriff	37,447	37,447	-	-	-	-
Yavapai County Attorney	21,030	21,030	21,030	-	-	-
Yavapai County Sheriff	21,030	-	-	-	-	-
Mohave County Attorney	19,949	19,949	19,949	-	-	-
Mohave County Sheriff	19,949	-	-	-	-	-
Yuma County Attorney	19,507	19,507	19,507	-	-	-
Yuma County Sheriff	19,507	-	19,507	-	-	-
Cochise County Attorney	13,089	-	-	-	-	-
Cochise County Sheriff	13,089	-	-	-	-	-
Coconino County Attorney	13,396	-	-	-	-	-
Coconino County Sheriff	13,396	13,396	-	-	-	-
Navajo County Attorney	10,708	10,708	-	-	-	-
Navajo County Sheriff	10,708	-	-	-	-	-
Apache County Attorney	7,127	7,127	7,127	-	-	-
Apache County Sheriff	7,127	-	7,127	-	-	-
Gila County Attorney	5,341	5,341	-	-	-	-
Gila County Sheriff	5,341	-	-	-	-	-
Santa Cruz County Attorney	4,726	4,726	-	-	-	-
Santa Cruz County Sheriff	4,726	-	-	-	-	-
Graham County Attorney	3,709	-	-	-	-	-
Graham County Sheriff	3,709	-	-	-	-	-
La Paz County Attorney	2,042	2,042	2,042	-	-	-
La Paz County Sheriff	2,042	-	-	-	-	-
Greenlee County Attorney	841	-	-	-	-	-
Greenlee County Sheriff	841	-	-	-	-	-
Unallocated	0	236,793	981,777	-	-	-
TOTAL	\$1,213,200	\$1,213,200	\$1,213,200	\$0	\$0	\$0

- 1/ Further details prior to FY 2018 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 \$22.3 million total GIITEM General Fund appropriation to DPS in FY 2018. The FY 2018 General Appropriation Act includes a footnote that clarifies that it is the intent of the Legislature to increase this appropriation in FY 2019 to the previous \$2.6 million level. Beginning in FY 2011, statute allocated the first \$1.6 million to the Maricopa County Sheriff's Office and the next \$500,000 to the Pinal County Sheriff's Office. The FY 2018 Criminal Justice Budget Reconciliation Bill eliminated the Maricopa County distribution and permanently prohibited any monies from being allocated to the Maricopa County Sheriff. The bill also included a one-time distribution of \$400,000 to the Pima County Sheriff's Office.
- 3/ Estimates provided by DPS.
- 4/ Funding for the Detention Liaison Officer, Border County Officers, and Border Security and Law Enforcement Grants is provided from the GIITEM Subaccount.
- 5/ FY 2018 GIITEM Subaccount amounts reflect allocations from the DPS expenditure plan as reviewed at the June 20, 2017 meeting of the JLBC.
- 6/ As required by Laws 2017, Chapter 303, JLBC reviewed DPS' FY 2018 GIITEM Subaccount expenditure plan on June 20, 2017.
- 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 2018.
- 8/ As required by Laws 2017, Chapter 303, JLBC reviewed DPS' FY 2018 BSTF Local Support expenditure plan on June 20, 2017.
- 9/ Funded by a General Fund appropriation.
- 10/ Funding for this line item was not continued in FY 2016.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Anti-Racketeering Revolving Fund (PSA3123/A.R.S. § 13-2314.01)		Non-Appropriated
Source of Revenue: Any monies obtained as a result of a Department of Public Safety (DPS) seizure and forfeiture by the Attorney General are deposited into this fund. The forfeitures are made under the Racketeering Influenced and Corrupt Organization (RICO) laws.		
Purpose of Fund: For the investigation and prosecution of any offense relating to racketeering. These funds may also be used for gang prevention programs, substance abuse prevention programs and substance abuse education programs.		
Funds Expended	5,808,900	5,101,600
Year-End Fund Balance	8,610,600	3,839,000
Automated Fingerprint Identification System Fund (PSA2286/A.R.S. § 41-2414)		Appropriated
Source of Revenue: A 6.46% allocation from the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For operation and maintenance of the Arizona Automated Fingerprint Identification System. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) repeals this fund effective June 30, 2018. The remaining balance and future revenue will be deposited into the DPS Forensics Fund.		
Funds Expended	896,700	2,919,700
Year-End Fund Balance	2,717,400	2,062,300
Automobile Theft Authority Fund (ATA2060/A.R.S. § 41-3451)		Appropriated
Source of Revenue: A semi-annual fee of \$0.50 per vehicle insured under a motor vehicle liability insurance policy for vehicles with a gross weight under 26,000 pounds.		
Purpose of Fund: To allocate monies to public agencies for the purpose of establishing, maintaining and supporting programs that are designed to prevent motor vehicle theft, and to cover the costs of administration not to exceed 10% of the fund. The FY 2017 budget included a one-time \$3,000,000 appropriation to DPS for one-time costs of the Border Strike Task Force (BSTF).		
Funds Expended	3,000,000	0
Year-End Fund Balance	0	0
Capitol Police Administrative Towing Fund (PSA1999/A.R.S. § 41-1725)		Non-Appropriated
Source of Revenue: Penalties and fees collected for parking violations on state property.		
Purpose of Fund: For Capitol Police Department law enforcement purposes.		
Funds Expended	54,000	20,000
Year-End Fund Balance	100	100
Concealed Weapons Permit Fund (PSA2518/A.R.S. § 41-1722)		Appropriated
Source of Revenue: Fees for the application, renewal, and replacement of concealed weapons permits. These fees range from \$10 for a replacement permit to \$60 for a new permit.		
Purpose of Fund: Funds the costs associated with administering the concealed weapons permit process. The FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) allows monies in the fund to be utilized for the procurement of virtual training for law enforcement officers.		
Funds Expended	1,494,900	1,420,000
Year-End Fund Balance	5,329,800	3,767,100
Conferences, Workshops and Other Education Fund (PSA2700/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Conference registration fees.		
Purpose of Fund: To cover expenditures of conferences held by the Governor's Office of Highway Safety.		
Funds Expended	24,100	24,100
Year-End Fund Balance	14,300	15,200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Crime Laboratory Assessment Fund (PSA2282/A.R.S. § 41-2415)		Appropriated
Source of Revenue: A 2.3% allocation of CJEF. DPS retains 55% of this fund and distributes the remaining funds to political subdivisions that operate crime laboratories.		
Purpose of Fund: To provide enhanced crime lab services, purchase and maintain scientific equipment, and train crime lab forensic scientists. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) repeals this fund effective June 30, 2018. The remaining balance and future revenue will be deposited into the DPS Forensics Fund.		
Funds Expended	870,200	870,300
Year-End Fund Balance	281,500	233,500
Crime Laboratory Operations Fund (PSA2394/A.R.S. § 41-1772)		Appropriated
Source of Revenue: The fund includes the first \$10,400,000 generated each year resulting from a \$45 surcharge for all persons who elect to take a defensive driving course in lieu of paying the civil traffic violation fine. Any revenues in excess of that amount are deposited into the General Fund. In addition, DPS is authorized to receive 9% of CJEF revenues that were previously deposited into the General Fund. These additional funds are exempt from distribution to political subdivisions. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To fund crime laboratory or other department operations. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) repeals this fund effective June 30, 2018. The remaining balance and future revenue will be deposited into the DPS Forensics Fund.		
Funds Expended	13,218,100	13,611,300
Year-End Fund Balance*	100	(300,000)
Criminal Justice Enhancement Fund (PSA3702/A.R.S. § 41-2401)		Partially-Appropriated
Source of Revenue: An 85% allocation of an 8.56% distribution from CJEF. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For operational expenses of the Criminal Justice Information System and the Arizona Automated Fingerprint Identification System.		
Appropriated Funds Expended	2,860,500	2,873,400
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance*	116,800	(153,800)
Deoxyribonucleic Acid (DNA) Identification System Fund (PSA2337/A.R.S. § 41-2419)		Appropriated
Source of Revenue: A 15% allocation of an 8.56% distribution from CJEF, monies collected from individuals subjected to DNA testing who have the financial ability to pay for tests, and contributions from any other sources. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations. The fund also receives revenues from a separate 6% surcharge on all fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To implement, operate and maintain DNA testing and administrative costs. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) repeals this fund effective June 30, 2018. The remaining balance and future revenue will be deposited into the DPS Forensics Fund.		
Funds Expended	4,637,300	4,970,100
Year-End Fund Balance	57,100	53,000
DPS Administration Fund (PSA2322/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: State and local grants and donations.		
Purpose of Fund: For administering state and local grants such as Emergency Medical Services Communications, Arizona Criminal Justice Commission, Forensics, Fines Management and the DPS Criminal Justice Enhancement Fund project, as well as for operational costs of the Criminal Justice Information System.		
Funds Expended	1,890,500	1,475,800
Year-End Fund Balance	1,987,000	2,696,200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
DPS Forensics Fund (PSA9990/A.R.S. § 41-1730)		Appropriated
Source of Revenue: The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) consolidated the Crime Laboratory Assessment Fund, Auto Fingerprinting Identification Fund, DNA Identification Fund, and Crime Laboratory Operations Fund. All previous balances and future revenue are deposited into this fund effective June 30, 2018.		
Purpose of Fund: 55% may be used by DPS to purchase and install fingerprint identification equipment; operate, maintain and administer the Arizona Automated Fingerprint Identification System; crime laboratory operations and enhanced services; educating and training forensic scientists; purchasing and maintaining scientific equipment for crime lab use; and implementing, operating and maintaining Arizona DNA Identification System. The remaining 45% shall be distributed to the Phoenix Police Department (22%), Tucson Police Department (12%), Mesa Police Department (7%), and Scottsdale Police Department (4%).		
Funds Expended	0	0
Year-End Fund Balance	0	0
DPS Licensing Fund (PSA2490/A.R.S. § 32-2408)		Non-Appropriated
Source of Revenue: Fees collected from Private Investigator and Security Guard license applicants.		
Purpose of Fund: For the operational and equipment costs of regulating the private investigator and security guard industry.		
Funds Expended	1,041,300	1,056,400
Year-End Fund Balance	373,200	199,500
Driving Under the Influence Abatement Fund (PSA2422/A.R.S. § 28-1304)		Non-Appropriated
Source of Revenue: A fee of \$250 to be paid by every offender convicted of either an extreme or aggravated driving under the influence (DUI) offense. An extreme DUI violation is defined as a person possessing a blood alcohol concentration of 0.15 or greater.		
Purpose of Fund: To fund DUI-related programs. The Oversight Council on Driving or Operating Under the Influence Abatement distributes 25% of the revenues to fund pilot programs that use emerging technologies to deter occurrences of driving under the influence, and at least 70% of the monies to fund subdivisions and tribal governments that apply for monies for enforcement and alcohol abuse treatment services. The Arizona Criminal Justice Commission staffs the Council. The Arizona Department of Transportation and DPS receive grant funds from the Council. Not more than 5% of the monies are to be used for administrative purposes of the Oversight Council on Driving or Operating Under the Influence Abatement or payment of the costs of notification.		
Funds Expended	1,250,400	1,250,800
Year-End Fund Balance	1,106,100	1,189,300
Drug and Gang Prevention Resource Center Fund (JCA2280/A.R.S. § 41-2402)		Appropriated
Source of Revenue: 1.31% of fee collections and filings in the Superior Court, 1.31% of notary bond fees, and public and private gifts or grants, excluding federal monies.		
Purpose of Fund: To fund the Arizona Youth Survey, a statutorily required survey of 8th, 10th, and 12th grade students in schools across Arizona. The survey measures alcohol and drug use, gang affiliation, and weapons within schools. The FY 2017 budget included a \$1,000,000, one-time appropriation from the fund to help cover one-time costs of the Border Strike Task Force.		
Funds Expended	1,000,000	0
Year-End Fund Balance	0	0
Families of Fallen Police Officers Special Plate Fund (PSA2386/A.R.S. § 41-1721)		Non-Appropriated
Source of Revenue: Receives \$17 of the \$25 fee paid for an original or renewal of a Family of Fallen Police Officer Special License Plate.		
Purpose of Fund: For a nonprofit corporation in the state that demonstrates a commitment to helping in the healing of family survivors of police officers who died in the line of duty in this state, to provide survivor victimization training to law enforcement personnel, and to educate the public on the need to support law enforcement personnel and the families of fallen officers.		
Funds Expended	266,300	270,100
Year-End Fund Balance	300	200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Grants and Reimbursements (PSA2000/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To administer various federal awards including Federal Highway Administration grants, Homeland Security grants, the High Intensity Drug Trafficking Area program, the Motor Carrier Safety Assistance program, crime lab grants, and Department of Justice Victims of Crime Act monies.		
Funds Expended	47,100,900	77,079,200
Year-End Fund Balance	1,336,300	2,487,200
Fingerprint Clearance Card Fund (PSA2433/A.R.S. § 41-1758.06)		Partially-Appropriated
Source of Revenue: Fees charged to applicants or contract providers for a fingerprint clearance card.		
Purpose of Fund: To centralize fingerprinting services for state agencies. Revenues pay for the processing and issuance of fingerprint clearance cards. The FY 2018 budget included a one-time \$700,000 appropriation for the replacement of crime lab equipment.		
Appropriated Funds Expended	0	700,000
Non-Appropriated Funds Expended	4,817,700	5,933,500
Year-End Fund Balance	2,804,300	2,428,300
Board of Fingerprinting Fund (PSA2435/A.R.S. § 41-619.56)		Non-Appropriated
Source of Revenue: Fees paid by fingerprint clearance card applicants.		
Purpose of Fund: To fund the Board of Fingerprinting, which conducts good cause exception hearings for personnel who require a fingerprint clearance card.		
Funds Expended	591,600	623,600
Year-End Fund Balance	2,363,200	2,649,600
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount (PSA 2396/A.R.S. § 41-1724)		Appropriated
Source of Revenue: A \$4 criminal fee assessed on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To provide funding to county sheriffs and municipal police departments for law enforcement purposes relating to border security including border personnel. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) allows DPS to utilize up to \$137,700 for costs related to increases in the employer contribution rate for the Public Safety Personnel Retirement System. In addition, the FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) made Maricopa County ineligible for these monies.		
Funds Expended	2,227,400	2,527,700
Year-End Fund Balance	2,979,200	1,934,300
Gang and Immigration Intelligence Team Enforcement Mission Fund (PSA2396/A.R.S. § 41-1724)		Appropriated
Source of Revenue: A penalty assessed against law enforcement agencies in the state that are not enforcing current illegal immigration statutes and General Fund monies deposited into the fund per a General Appropriation Act footnote. This General Fund amount was \$1,403,400 in FY 2018 and is \$2,603,400 in the FY 2019 Baseline. The fine can be no less than \$500 and no more than \$5,000 a day for as long as the law enforcement agency is in non-compliance. Expenditures from this fund are not displayed below to avoid double counting.		
Purpose of Fund: These monies can be used for enforcement of gang and immigration statutes, border security, human and drug smuggling laws, the employer sanctions law and for county jail reimbursement, resulting from costs attributed to illegal immigration. A.R.S. § 41-1724 mandates that the first \$500,000 in revenues be distributed to the Pinal County Sheriff for immigration enforcement and prohibits any money from being distributed to the Maricopa County Sheriff. Any entity receiving monies from the fund shall provide 25% of the cost of services with DPS providing the remaining 75%.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Highway Patrol Fund (PSA2032/A.R.S. § 41-1752)		Appropriated
Source of Revenue: A 0.43% premium tax paid by vehicle insurers, miscellaneous service fees, rewards, awards, insurance recoveries, and receipts from the sale or disposal of property held by the Highway Patrol. This fund also includes deposits of fees collected from towing impound hearings.		
Purpose of Fund: To administer the provisions of law relating to the Highway Patrol and Highway Patrol Reserve and for the costs associated with impounding vehicles.		
Funds Expended	24,113,200	25,474,400
Year-End Fund Balance	7,682,800	5,891,700
Highway User Revenue Fund (PSA3113/A.R.S. § 28-6533)		Appropriated
Source of Revenue: Revenues collected from various highway-related taxes and fees, including the motor vehicle license tax.		
Purpose of Fund: To fund a portion of Highway Patrol costs.		
Funds Expended	95,908,400	99,398,700
Year-End Fund Balance	0	0
IGA and ISA Fund (PSA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	9,287,900	10,676,600
Year-End Fund Balance	2,049,100	1,740,700
Indirect Cost Recovery Fund (PSA9000/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	579,000	425,900
Year-End Fund Balance	1,718,300	2,392,400
Motor Carrier Safety Revolving Fund (PSA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material, substances or waste, as required by A.R.S. Title 28; and monies received from private grants or donations.		
Purpose of Fund: DPS conducts motor carrier safety investigations, the Motor Vehicle Division of ADOT administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	2,000	2,100
Year-End Fund Balance	15,600	21,500
Motorcycle Safety Fund (PSA2479/A.R.S. § 28-2010)		Appropriated
Source of Revenue: Receives \$1 of each motorcycle registration fee.		
Purpose of Fund: To implement and support voluntary motorcycle safety, education and awareness programs.		
Funds Expended	0	205,000
Year-End Fund Balance	191,300	96,300
Parity Compensation Fund (PSA2510/A.R.S. § 41-1720)		Appropriated
Source of Revenue: Receives 1.51% of the portion of vehicle license tax revenues that otherwise would be deposited in the State Highway Fund.		
Purpose of Fund: To fund salary and benefit adjustments for law enforcement personnel.		
Funds Expended	2,129,400	3,422,300
Year-End Fund Balance	4,379,600	4,357,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Peace Officers' Training Fund (PSA2049/A.R.S. § 41-1825)		Non-Appropriated
Source of Revenue: Receives 16.64% of CJEF. CJEF is composed of a 47% penalty on fines and forfeitures imposed by the courts for criminal and civil motor vehicle statute violations.		
Purpose of Fund: For training costs, including the operation of the Arizona Law Enforcement Officers' Academy, grants to state agencies, cities and towns, and counties for training law enforcement officers and the operation of the Peace Officer Standards and Training Board.		
Funds Expended	5,454,100	5,512,300
Year-End Fund Balance	899,800	1,340,000
Public Safety Equipment Fund (PSA2391/A.R.S. § 41-1723)		Partially-Appropriated
Source of Revenue: Revenues from a \$4 criminal fee on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations per A.R.S. § 12-116.04 as well as an additional \$4 per citation issued by DPS. These 2 revenue sources are appropriated. In addition, revenues include the first \$1,200,000 generated by additional assessments of up to \$1,500 to be paid by every offender convicted of driving or operating under the influence (DUI or OUI) offenses, except for boating-related offenses. These assessments are not subject to appropriation. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) requires the Treasurer to deposit any monies in excess of \$1,200,000 directly into the General Fund.		
Purpose of Fund: To fund purchases of protective body armor, electronic stun gun devices, vehicles, and other safety equipment.		
Appropriated Funds Expended	2,783,300	3,893,700
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	8,372,000	4,181,600
Records Processing Fund (PSA2278/A.R.S. § 41-1750)		Non-Appropriated
Source of Revenue: Fees charged to other agencies and local political subdivisions for costs of processing department reports and photographs of traffic accident scenes and processing criminal and non-criminal justice fingerprint cards through the federal government.		
Purpose of Fund: For fingerprint processing and department administrative costs.		
Funds Expended	4,970,100	5,361,200
Year-End Fund Balance	1,035,700	978,500
Risk Management Revolving Fund (PSA4216/A.R.S. § 41-1713)		Appropriated
Source of Revenue: Transfer from the Arizona Department of Administration Risk Management Fund.		
Purpose of Fund: For the costs of a disaster recovery program for the DPS mainframe data center and the operational costs of the Capitol Police.		
Funds Expended	1,263,700	1,314,200
Year-End Fund Balance	19,000	19,000
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount (PSA2108/A.R.S. § 28-6547)		Appropriated
Source of Revenue: Monies are transferred from the ADOT administered fund and includes fees for commercial vehicle permits collected at southern ports of entry on the border with Mexico and interest earnings. The FY 2017 Government Budget Reconciliation Bill (Laws 2016, Chapter 121) created the Department of Public Safety and Department of Transportation subaccounts within the Safety Enforcement and Transportation Infrastructure Fund and divided revenues between the 2 accounts with the Department of Public Safety Subaccount receiving 45% of revenues and the Department of Transportation Subaccount receiving 55% of revenues to the fund.		
Purpose of Fund: To fund commercial vehicle enforcement officers along the border, particularly in Yuma, Douglas and Nogales. <i>(See the Arizona Department of Transportation Summary of Funds section for other purposes of this fund.)</i>		
Funds Expended	1,551,800	1,634,400
Year-End Fund Balance	257,400	433,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Aid to Indigent Defense Fund (PSA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, a 14.66% allocation of a 7% penalty assessment on fines, penalties and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and a 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: To provide state aid through the Arizona Criminal Justice Commission to county public defenders for the processing of criminal cases. These monies are no longer used for this purpose. The FY 2018 Criminal Justice Budget Reconciliation Bill (Laws 2017, Chapter 303) permits DPS to utilize monies in the fund for operational costs during FY 2018.		
Funds Expended	561,900	700,000
Year-End Fund Balance	196,600	104,300
State Highway Fund (PSA2030/A.R.S. § 28-6991)		Appropriated
Source of Revenue: Monies appropriated by the Legislature, a portion of the Highway User Revenue Fund, fees, penalties and revenue derived from traffic and vehicle regulation.		
Purpose of Fund: To fund a portion of Highway Patrol costs and cover expenses of state enforcement of traffic laws and state administration of traffic safety programs.		
Funds Expended	7,301,800	8,713,500
Year-End Fund Balance	0	0
State Highway Work Zone Safety Fund (PSA2480/A.R.S. § 28-710)		Non-Appropriated
Source of Revenue: A 50% allocation of the additional assessment levied for civil traffic violations committed in a highway work zone.		
Purpose of Fund: To establish and maintain a public education campaign for highway work zone safety.		
Funds Expended	35,500	120,000
Year-End Fund Balance	229,000	118,700
Statewide Donations (PSA2025/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Donations from outside entities.		
Purpose of Fund: To fund the costs of special events and other purposes determined by the Governor's Office of Highway Safety.		
Funds Expended	0	0
Year-End Fund Balance	7,300	7,300
Victims' Rights Enforcement Fund (PSA2519/A.R.S. § 41-1727)		Non-Appropriated
Source of Revenue: A \$2 surcharge on criminal offenses and civil traffic violations and up to \$100,000 annually from the revenues of lottery games that are sold from vending machines.		
Purpose of Fund: To provide grants to non-profit entities that can demonstrate a 5-year history of providing legal representation and social services to crime victims. Up to 5% of the revenues into the fund can be used for administrative costs of the fund.		
Funds Expended	896,300	1,000,000
Year-End Fund Balance	940,200	843,700

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

Public Safety Personnel Retirement System

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
SPECIAL LINE ITEMS			
EORP Fund Deposit	5,000,000	5,000,000	5,000,000
Prescott Fire Employer Group Deposit	1,000,000	1,000,000	1,000,000
AGENCY TOTAL	6,000,000	6,000,000	6,000,000
FUND SOURCES			
General Fund	6,000,000	6,000,000	6,000,000
SUBTOTAL - Appropriated Funds	6,000,000	6,000,000	6,000,000
Other Non-Appropriated Funds	12,457,600	13,776,100	15,327,600
TOTAL - ALL SOURCES	18,457,600	19,776,100	21,327,600

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 Baseline 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 Baseline 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 Baseline includes \$1,000,000 from the General Fund in FY 2019 for deposit into the employer account of the Prescott Fire Department group. This amount is unchanged from FY 2018.

In June 2013, 19 firefighters employed by the Prescott Fire Department died in the line of duty while fighting the Yarnell Hill Fire. Of the 19, 6 were classified as permanent employees and were enrolled in PSPRS. As such, their survivors qualify to receive ongoing payments equal to 100% of the employees' average monthly wages, including overtime. The increased liability resulting from these benefit payments is funded from the employer

account of the Prescott Fire Department through an increase in employer contribution rates.

To offset the increased pension liabilities resulting from the 6 firefighters, the FY 2015 budget appropriated 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.

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.

Other Issues

Long-Term Budget Impacts

As part of The Baseline's 3-year spending plan, PSPRS' General Fund costs are projected to decrease by \$(1,000,000) in FY 2020 below FY 2019. This estimate is based on:

Prescott Fire Employer Group Deposit – In FY 2020, the \$1.0 million annual deposit into the employer account of the Prescott Fire Department group is scheduled to be eliminated.

See the Consolidated Retirement Report section for more information on PSPRS membership and actuarial data.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Disability Program Trust Fund (No Fund Number/A.R.S. § 38-870.02)		Non-Appropriated
Source of Revenue: Employee and employer contributions for members that were hired on or after July 1, 2017, abandoned Disability Program monies, and interest earnings.		
Purpose of Fund: Paying benefits and administration costs for the Defined Contribution Retirement Plan Disability Program established under Tier 3 of PSPRS.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Fire Fighter, Peace Officer, and Corrections Officer Cancer Insurance Policy Program Account (No Fund Number/A.R.S. § 38-643)		Non-Appropriated
Source of Revenue: Consists of employer contributions of \$180 per fire fighter participating in the Public Safety Personnel Retirement System (PSPRS) as of June 30 of each year.		
Purpose of Fund: The account allows the Fund Manager to obtain a group cancer insurance policy to provide coverage to fire fighters, peace officers, and correction officers for expenses incurred in the treatment of cancer that was first diagnosed after membership in PSPRS. The Fund Manager may use up to 10% of the monies deposited in the account for administrative expenses.		
Funds Expended	33,100	36,600
Year-End Fund Balance	0	0
Investment and Administrative Expenses (No Fund Number/A.R.S. § 38-843; 38-802; 38-882; 38-840.02)		Non-Appropriated
Source of Revenue: Public Safety Personnel Retirement Fund; Elected Officials' Retirement Fund; Correctional Officer Retirement Fund; Elected Officials' Defined Contribution Disability Program Trust Fund.		
Purpose of Fund: A 9-member governing board administers PSPRS, the Elected Officials' Retirement Plan (EORP), the Elected Officials' Defined Contribution Retirement System (EODC System), and the Correctional Officer Retirement Plan (CORP). Authority is granted in statute to spend monies from each fund to pay for necessary administration and investment expenses. FY 2017 and FY 2018 expenditures exclude \$51,546,600 and \$53,093,000, respectively, of net fees applied to investments.		
Funds Expended	12,424,500	13,739,500
Year-End Fund Balance	0	0
Retiree Pool Account (No Fund Number/A.R.S. § 38-846.05)		Non-Appropriated
Source of Revenue: PSPRS employee and employer contributions for members that were hired on or after July 1, 2017 if the employer has 250 or less active members. The account shall remain 100% funded. In any fiscal year that the account is not 100% funded as of June 30, the amount necessary to adjust the account up or down to 100% funded shall be transferred from or to the investment earnings of the fund before those earnings are distributed to each employer's account.		
Purpose of Fund: To share the actuarial liability costs for the employers of Tier 3 members (those hired on or after July 1, 2017) and are eligible for a normal retirement pension, a disability pension, or for survivors of Tier 3 members eligible for a death benefit pension.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Radiation Regulatory Agency

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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 Fund	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 are transferred to the Arizona Department of Health Services.

As required by Laws 2017, Chapter 313, the responsibilities of the Arizona Radiation Regulatory Agency (ARRA) will transfer 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 will be available to DHS to administer the ARRA program.

Operating Budget

The Baseline includes no funding in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Agency Transfer

The Baseline 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. This amount consists of:

	FY 2019
General Fund	\$(787,600)
Radiation Regulatory Fee Fund	(582,900)
State Radiologic Technologist Certification Fund	(273,800)

(Please see Other Issues for more information.)

Nuclear Emergency Management Program

The Baseline includes no funding in FY 2019 for the Nuclear Emergency Management Program line item. FY 2019 adjustments are as follows:

Agency Transfer

The Baseline 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.

Other Issues**Radiation Regulatory Agency Transfer**

Laws 2017, Chapter 313 transfers ARRA 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 are transferred to DHS on the effective date. The Baseline display does not reflect this transfer until FY 2019. *(Please see Arizona Department of Health Services narrative for more information.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Grants (AEA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants and miscellaneous revenue.		
<i>Purpose of Fund:</i> To track radiation levels, assess and reduce radon levels, and monitor x-ray facilities in the state. Laws 2017, Chapter 313 transfers the remaining balance of this fund to the Department of Health Services' Federal Grants Fund, effective January 1, 2018.		
Funds Expended	260,600	184,600
Year-End Fund Balance	1,700	18,400
Laser Safety Fund (AEA2388/A.R.S. § 32-3234)		Non-Appropriated
<i>Source of Revenue:</i> Fees collected from the authorization of certificates to individuals that operate lasers of Intense Pulsed Light (IPL) devices for health and cosmetic related purposes.		
<i>Purpose of Fund:</i> To fund the costs of issuing licenses to individuals that operate lasers or IPL devices for health related purposes. Laws 2017, Chapter 313 transfers this fund to the Department of Health Services, effective January 1, 2018.		
Funds Expended	48,600	48,500
Year-End Fund Balance	3,500	2,800
Nuclear Emergency Management Fund (AEA2138/A.R.S. § 26-306.02)		Appropriated
<i>Source of Revenue:</i> An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station. Laws 2017, Chapter 43 appropriates \$789,663 to the Arizona Radiation Regulatory Agency in both FY 2018 and FY 2019.		
<i>Purpose of Fund:</i> To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Laws 2015, Chapter 132 appropriated \$789,663 from the General Fund in FY 2017 to be deposited into the fund. The FY 2017 General Fund expenditures are not displayed to avoid double counting of appropriated funds. Laws 2017, Chapter 43 establishes the fund as an appropriated fund with fees directed to the Nuclear Emergency Management Fund rather than the General Fund. Laws 2017, Chapter 313 transfers this fund to the Department of Health Services, effective January 1, 2018.		
Funds Expended	0	789,700
Year-End Fund Balance	22,700	16,800
Radiation Regulatory Fee Fund (AEA2554/A.R.S. § 30-658)		Appropriated
<i>Source of Revenue:</i> Includes fees collected for licensing, inspection, and registration fees for individuals and other entities utilizing radiological materials.		
<i>Purpose of Fund:</i> To provide funding for the operating expenses of the agency. Laws 2017, Chapter 313 transfers this fund to the Department of Health Services, effective January 1, 2018.		
Funds Expended	555,900	582,900
Year-End Fund Balance	108,200	140,600

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Radiologic Technologist Certification Fund (AEA2061/A.R.S. § 32-2823)		Appropriated
Source of Revenue: License fees paid by x-ray technologists.		
Purpose of Fund: To provide for the licensing of x-ray technologists and the investigation of complaints. Laws 2017, Chapter 313 transfers this fund to the Department of Health Services, effective January 1, 2018.		
Funds Expended	249,100	273,800
Year-End Fund Balance	89,200	80,800

State Real Estate Department

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	623,100
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	534,100
Equipment	13,200	73,100	73,100
AGENCY TOTAL	2,459,700	3,028,000	2,994,900
FUND SOURCES			
General Fund	2,459,700	3,028,000	2,994,900
SUBTOTAL - Appropriated Funds	2,459,700	3,028,000	2,994,900
Other Non-Appropriated Funds	160,900	338,500	338,500
TOTAL - ALL SOURCES	2,620,600	3,366,500	3,333,400

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

FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions section.)

The Baseline includes \$2,994,900 and 37 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The budget includes a decrease of \$(33,100) from the General Fund in FY 2019 for the removal of a one-time

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Condominium and Planned Community Hearing Office Fund (REA2537/A.R.S. § 32-2199.05)		Non-Appropriated
Source of Revenue: Filing fees (\$500 per complaint) and civil penalties arising from disputes between owners and condominium or planned community associations over violations of condominium or planned community documents or violations of regulatory statutes		
Purpose of Fund: To reimburse the costs of HOA Dispute Process hearings administered by the Office of Administrative Hearings in conducting hearings concerning disputes between owners and condominium or planned community associations. Remaining monies in the fund may be used by the department to offset the costs of administering cases between owners and condominium or planned community associations. The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transferred the fund and the HOA adjudication process from the Department of Fire, Building and Life Safety to the Department of Real Estate.		
Funds Expended	17,000	17,000
Year-End Fund Balance	4,800	7,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Education Revolving Fund (REA4011/A.R.S. § 32-2107)		Non-Appropriated
Source of Revenue: Sale of the department's educational publications, primarily the Real Estate Lawbook.		
Purpose of Fund: To cover the department's costs of printing real estate regulation books and other public information publications, and to cover the department's costs for other educational efforts, including sponsoring and holding the educational seminars or workshops for educators and other licensees. All monies in excess of \$25,000 at the end of the fiscal year shall revert to the General Fund.		
Funds Expended	4,300	12,000
Year-End Fund Balance	26,800	22,700
Recovery Fund (REA3119/A.R.S. § 32-2186)		Non-Appropriated
Source of Revenue: A fee of \$20 for brokers and \$10 for salespersons, paid upon application for an original real estate or cemetery license. A surcharge on license renewals is assessed if the fund balance on June 30 of any year falls below \$600,000. The fund also consists of restitution paid by persons convicted of real estate fraud and ordered to repay a judgment awarded out of the Recovery Fund.		
Purpose of Fund: To compensate persons who have been defrauded in a real estate transaction and subsequently suffered monetary losses. Those persons may seek a court order for an award from the Recovery Fund if the person who committed the fraud has no assets. Monies also provide for the department's cost of administering the fund.		
Funds Expended	139,600	309,500
Year-End Fund Balance	884,500	664,000

Residential Utility Consumer Office

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	241,900
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	168,800
Equipment	1,800	0	0
OPERATING SUBTOTAL	1,065,800	1,199,300	1,186,400
SPECIAL LINE ITEMS			
Professional Witnesses	83,800	145,000	145,000
AGENCY TOTAL	1,149,600	1,344,300	1,331,400
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Residential Utility Consumer Office Revolving Fund	1,149,600	1,344,300	1,331,400
SUBTOTAL - Other Appropriated Funds	1,149,600	1,344,300	1,331,400
SUBTOTAL - Appropriated Funds	1,149,600	1,344,300	1,331,400
TOTAL - ALL SOURCES	1,149,600	1,344,300	1,331,400

AGENCY DESCRIPTION — The Residential Utility Consumer Office (RUCO) serves as an advocate for residential customers of public utilities in rate hearings held before the Arizona Corporation Commission. Through its technical staff and expert consultants, RUCO analyzes utility company data to determine appropriate positions to take and present on behalf of residential ratepayers. The RUCO Director is appointed by the Governor.

Operating Budget

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The Baseline includes \$1,186,400 and 11 FTE Positions from the RUCO Revolving Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(12,900) from the RUCO Revolving Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Professional Witnesses

The Baseline 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.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Monies in the Professional Witnesses Special Line Item are a continuing appropriation and are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Residential Utility Consumer Office Revolving Fund (UOA2175/A.R.S. § 40-409)		Appropriated
Source of Revenue: An assessment levied on public service corporations with annual residential revenues in excess of \$250,000, as defined by A.R.S. § 40-401.01.		
Purpose of Fund: To operate the Residential Utility Consumer Office.		
Funds Expended	1,149,600	1,344,300
Year-End Fund Balance	434,100	329,200

Board of Respiratory Care Examiners

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	62,600
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	50,500
Equipment	4,500	700	700
OPERATING SUBTOTAL	297,800	303,800	300,300
SPECIAL LINE ITEMS			
Temporary Caseload Increase	0	19,500	0
AGENCY TOTAL	297,800	323,300	300,300
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Respiratory Care Examiners Fund	297,800	323,300	300,300
SUBTOTAL - Other Appropriated Funds	297,800	323,300	300,300
SUBTOTAL - Appropriated Funds	297,800	323,300	300,300
TOTAL - ALL SOURCES	297,800	323,300	300,300

AGENCY DESCRIPTION - The board licenses and regulates respiratory care practitioners. A respiratory therapist performs inhalation therapy and respiratory therapy, which includes administering pharmacological, diagnostic, and therapeutic agents, as directed by a physician.

Operating Budget

The Baseline includes \$300,300 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(3,500) from the Board of Respiratory Care Examiners Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Temporary Caseload Increase

The Baseline 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 Baseline 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.

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FORMAT — 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Board of Respiratory Care Examiners Fund (RBA2269/A.R.S. § 32-3505)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of respiratory care practitioners. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate respiratory care practitioners, and for board administration.		
Funds Expended	297,800	323,300
Year-End Fund Balance	257,300	199,400

Arizona State Retirement System

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	5,085,800
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	24,359,200
SPECIAL LINE ITEMS			
Automation Upgrades	1,041,000	0	0
AGENCY TOTAL	24,556,200	25,167,700	24,359,200
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	22,159,200
SUBTOTAL - Other Appropriated Funds	24,556,200	25,167,700	24,359,200
SUBTOTAL - Appropriated Funds	24,556,200	25,167,700	24,359,200
Other Non-Appropriated Funds	15,098,500	16,003,000	15,961,900
TOTAL - ALL SOURCES	39,654,700	41,170,700	40,321,100

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

Operating Budget

The Baseline includes \$24,359,200 and 245.9 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
State Retirement System Administration Account	\$22,159,200
Long-Term Disability (LTD) Trust Fund Administration Account	2,200,000

FY 2019 adjustments are as follows:

Operating Budget Savings

The Baseline 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 Baseline 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(283,500) from the State Retirement System Administration Account in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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FORMAT — Lump Sum by Agency

See the Consolidated Retirement Report section for more information on ASRS membership and actuarial data.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Administrative Account - Investment Expenses (RSA1407/A.R.S. § 38-721)		Non-Appropriated
<i>Source of Revenue:</i> Transfer from the State Retirement Fund.		
<i>Purpose of Fund:</i> Investment management fees and related consulting fees, actuarial consulting fees, rent, and retiree payroll. Funding is subject to Retirement Board approval. Excludes \$153,725,200 and \$135,923,700 of net fees applied to investments in FY 2017 and FY 2018.		
Funds Expended	15,098,500	16,003,000
Year-End Fund Balance	0	0
Long-Term Disability Trust Fund Administration Account (RSA1408/A.R.S. § 38-797.02)		Partially-Appropriated
<i>Source of Revenue:</i> Long-Term Disability (LTD) Trust Fund.		
<i>Purpose of Fund:</i> To pay for the cost of administering the LTD program.		
Appropriated Funds Expended	1,782,100	2,500,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	4,800	0
State Retirement System Administration Account (RSA1401/A.R.S. § 38-721)		Appropriated
<i>Source of Revenue:</i> Transfer from the State Retirement Fund.		
<i>Purpose of Fund:</i> To pay the Arizona State Retirement System's administrative expenses.		
Funds Expended	22,774,100	22,667,700
Year-End Fund Balance	631,300	0

Department of Revenue

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8
Personal Services	24,337,400	25,702,100	25,702,100
Employee Related Expenditures	10,028,900	10,977,800	10,179,000
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	16,084,800	16,084,800
Equipment	3,664,700	2,257,100	2,257,100
OPERATING SUBTOTAL	59,825,000	64,755,000	63,956,200
SPECIAL LINE ITEMS			
BRITS Operational Support	7,312,700	7,604,900	7,497,500
Income Tax Fraud Prevention	2,827,900	3,150,000	3,150,000
TPT Simplification	872,800	1,005,300	970,400
Unclaimed Property Administration and Audit	1,747,600	1,218,500	1,218,500
Veterans' Income Tax Settlements	0	0	0
AGENCY TOTAL	72,586,000	77,733,700	76,792,600
FUND SOURCES			
General Fund	28,419,600	31,291,300	30,507,700
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	43,214,900	45,303,700	45,158,700
Department of Revenue Empowerment Scholarship Account Fund	0	50,000	50,000
Liability Program Setoff Revolving Fund	331,600	404,100	397,900
Tobacco Tax and Health Care Fund	619,900	684,600	678,300
SUBTOTAL - Other Appropriated Funds	44,166,400	46,442,400	46,284,900
SUBTOTAL - Appropriated Funds	72,586,000	77,733,700	76,792,600
Other Non-Appropriated Funds	1,215,600	1,876,800	1,876,800
TOTAL - ALL SOURCES	73,801,600	79,610,500	78,669,400

AGENCY DESCRIPTION - The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.

Operating Budget

The Baseline includes \$63,956,200 and 810.8 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$24,381,200
DOR Administrative Fund	38,448,800
DOR Empowerment Scholarship Account Fund	50,000
Liability Setoff Program Revolving Fund	397,900
Tobacco Tax and Health Care Fund	678,300

FY 2019 adjustments are as follows:

Empowerment Scholarship Account Administration

The Baseline 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 Baseline 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.)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(798,800) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(656,300)
DOR Administrative Fund	(130,000)
Liability Setoff Program Revolving Fund	(6,200)
Tobacco Tax and Health Care Fund	(6,300)

(Please see the Technical Budget Assumptions section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes \$7,497,500 and 51 FTE Positions in FY 2019 for operational support of BRITS. These amounts consist of:

General Fund	2,006,100
DOR Administrative Fund	5,491,400

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(107,400) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(92,400)
DOR Administrative Fund	(15,000)

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.

Income Tax Fraud Prevention

The Baseline includes \$3,150,000 from the General Fund in FY 2019 for Income 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.

Based on a DOR report, \$25.0 million in fraudulent returns were prevented in FY 2017, compared to \$78.5 million in prevented fraud in FY 2016.

TPT Simplification

The Baseline includes \$970,400 and 19 FTE Positions from the General Fund in FY 2019 for TPT Simplification responsibilities. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(34,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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.

Veterans' Income Tax Settlements

The Baseline includes no funding from the General Fund in FY 2019 for Veterans' Income Tax Settlements. This amount is unchanged from FY 2018.

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) created the Veterans' Income Tax Settlement Fund and appropriated \$2,000,000 from the General Fund to this new fund. Chapter 125 was subsequently amended by Laws 2017, Chapter 215.

These funds are used to distribute settlement payments to Native American veterans for over withholding of state individual income tax between July 1, 1977 and December 31, 2005. Members of an Indian tribe who are domiciled on an Indian reservation are not subject to state income tax, and military service men and women do not relinquish their domicile status while on assignment out of state.

Additionally, 5% of the fund balance at the beginning of each fiscal year can be used by both DOR and the Department of Veterans' Services for costs to administer the program. On or before October 1 of each year during CY 2017 through CY 2021, DOR shall report to the Legislature on the amount of withholdings subject to payments and the number of veterans affected. Any remaining monies in the fund on June 30, 2021 will revert to the General Fund.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The department may not transfer any monies to or from the Income Tax Fraud Prevention line item without prior review by the Joint Legislative Budget Committee.

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.

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.

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. The department shall provide an annual progress report to the Joint Legislative Budget Committee as to the effectiveness of the department's overall Enforcement and Collections Program for FY 2018 on or before September 30, 2018 and 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 on or before September 30, 2019. The reports shall include a comparison of projected and actual General Fund, total state tax, and 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.

STATUTORY CHANGES

The Baseline would, as session law, continue 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).

Other Issues

Tobacco Tax/Master Settlement Agreement

The Baseline 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.)*

APF - Information Technology Infrastructure

The Baseline includes no funding in FY 2019 from the Automation Projects Fund in FY 2019 for upgrades to DOR's IT infrastructure. The FY 2018 budget included a \$4.0 million transfer from the Department of Revenue Administrative Fund and \$4.0 million from Liability Setoff Program Revolving Fund to the Automation Projects Fund

in FY 2018 in addition to a \$3.0 million appropriation from a balance in the Automation Project Fund for this same purpose, thereby providing a total of \$11,000,000 in resources for DOR IT infrastructure. The project is expected to be completed by August 2018. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Department of Revenue Administrative Fund (RVA1993/A.R.S. § 42-1116.01)		Appropriated
<i>Source of Revenue:</i> The sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Each year, \$24,500,000 in unclaimed property proceeds are deposited into this fund. In addition, pursuant to A.R.S. § 42-5041, this fund receives cost assessments paid by local governments for DOR operating expenses.		
<i>Purpose of Fund:</i> To cover the Department of Revenue's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.		
Funds Expended	43,214,900	45,303,700
Year-End Fund Balance	6,005,700	1,957,800
Department of Revenue Empowerment Scholarship Account Fund (RVA2570/A.R.S. § 15-2402)		Appropriated
<i>Source of Revenue:</i> Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C and prior year carry-forward monies.		
<i>Purpose of Fund:</i> To fund DOR's costs of administering the Empowerment Scholarships Accounts program. DOR will verify the income of parents of students participating in the ESA program, pursuant to A.R.S. § 15-2402M.		
Funds Expended	0	50,000
Year-End Fund Balance	0	0
Escheated Estates Fund (RVA3745/A.R.S. § 12-885)		Non-Appropriated
<i>Source of Revenue:</i> The fund consists of monies from the sale of escheated estates. Property escheats, or reverts to the state, after 5 years when there is no will to transmit the property and there are no legal heirs to inherit it.		
<i>Purpose of Fund:</i> To deposit proceeds from the sale of escheated property and hold them in the fund for 12 months, from which payment of claims may be made, before being transferred to the Permanent State School Fund. Transfers to the Permanent School Fund totaled \$650,800 in FY 2017.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Estate and Unclaimed Property Fund (RVA1520/A.R.S. § 44-301)		Non-Appropriated
<i>Source of Revenue:</i> The fund consists of monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Notwithstanding the title of this fund, it no longer includes the proceeds of escheated estates. Those funds are deposited to the department's Escheated Estates Fund.		
<i>Purpose of Fund:</i> To pay allowed claims. The department retains not less than \$100,000 of the fund while the state attempts to locate abandoned property owners. Once monies are determined to be "unreturnable" they are disbursed as follows: Monies associated with unclaimed utility deposits are transferred to the Utility Assistance Fund. Monies from unclaimed shares and dividends of Arizona corporations and unclaimed property in a self-storage unit are transferred to the Permanent State School Fund. Unclaimed victim restitution monies are transferred to the Arizona Criminal Justice Commission's Victim Compensation and Assistance Fund. A.R.S. § 44-313 requires that the first \$2,000,000 in unclaimed property proceeds be deposited into the Seriously Mentally Ill Housing Trust Fund, the next \$2,500,000 into the Housing Trust Fund, the next \$24,500,000 into the DOR Administrative Fund and all remaining monies be redirected to the General Fund.		
Funds Expended	0	0
Transfer to Unclaimed Property Refunds	57,030,300	57,000,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
I Didn't Pay Enough Fund (RVA6001/A.R.S. § 43-211)		Non-Appropriated
Source of Revenue: Voluntary contributions from taxpayers.		
Purpose of Fund: Up to 10% of annual deposits may be used by DOR to administer the fund. Any unexpended monies revert to the General Fund at the close of the fiscal year.		
Funds Expended	0	0
Year-End Fund Balance	0	0
IGA and ISA Fund (RVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Transfer of funds from Arizona Early Childhood Development and Health Board. The fund also receives all transfers relating to the Automation Projects Fund (APF) projects. DOR plans to expend \$11,000,000 in FY 2018 from the APF for a data center IT project, but this amount is not displayed to avoid double counting.		
Purpose of Fund: To assist the Revenue Tobacco unit in enforcement compliance.		
Funds Expended	1,151,500	986,000
Year-End Fund Balance	247,000	247,000
Liability Setoff Program Revolving Fund (RVA2179/A.R.S. § 42-1122)		Appropriated
Source of Revenue: Fees collected from agencies, political subdivisions or taxpayers utilizing the setoff procedure. The Department of Revenue withholds taxpayer refunds to satisfy debts owed by the taxpayers to certain state and local agencies, such as delinquent child support payments owed to the Department of Economic Security.		
Purpose of Fund: To cover the Department of Revenue's costs of administering the Liability Setoff program.		
Funds Expended	331,600	404,100
Year-End Fund Balance	2,706,900	302,800
Revenue Publications Revolving Fund (RVA2166/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: Receipts from the sale of department tax-related publications.		
Purpose of Fund: To offset costs of publishing and distributing tax-related publications.		
Funds Expended	15,500	10,300
Year-End Fund Balance	32,000	40,500
Special Collections Fund (RVA2168/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: This fund consists of all monies received pursuant to contingent fee contracts to collect delinquent state taxes, penalties and interest due under A.R.S. Title 43 (taxation of income) and Title 42, Chapter 5, Article 1 (transaction privilege taxes).		
Purpose of Fund: To pay all fees and court costs provided for in contingent fee collection contracts authorized by A. R. S. § 42-1004B3. The remainder of the collected amounts is distributed to the state or political subdivisions according to the distribution proportions for the tax collected. Contingency fees paid to collectors are subtracted from gross collections and are not recorded as expenditures within the fund. Contracted collectors received \$163,600 in contingency fees in FY 2017.		
Funds Expended	0	0
Year-End Fund Balance	37,500	0
Statewide Employee Recognition Gifts/Donations Fund (RVA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.		
Funds Expended	900	2,000
Year-End Fund Balance	3,700	2,000
Tobacco Tax and Health Care Fund (RVA1306/A.R.S. § 36-771)		Appropriated
Source of Revenue: The fund consists of tobacco taxes retained by the department to administer the Tobacco Tax program.		
Purpose of Fund: To monitor and enforce tobacco tax laws.		
Funds Expended	619,900	684,600
Year-End Fund Balance	8,088,100	8,088,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Veterans' Income Tax Settlement Fund (VSA1601/Laws 2016, Chapter 125)		Non-Appropriated
Source of Revenue: Appropriation of \$2,000,000 from the General Fund.		
Purpose of Fund: To be distributed to Native American Veterans for state Individual Income Tax incorrectly withheld from military pay. DOR and the Department of Veterans' Services may use up to 5% of the \$2,000,000 transfer for administrative costs. Monies in the fund revert to the General Fund on June 30, 2021. DOR plans to expend \$878,500 in FY 2018, but this amount is not displayed to avoid double counting.		
Funds Expended	0	0
Year-End Fund Balance	1,952,400	976,300
Waste Tire Fund (RVA2356/A.R.S. § 44-1305)		Non-Appropriated
Source of Revenue: Collections from a fee on new tire purchases and penalties for violations.		
Purpose of Fund: Up to 3.5% of the monies in the fund are transferred quarterly to the Department of Environmental Quality (DEQ) to monitor and enforce the requirements of A.R.S. Title 44, Chapter 9, Article 8, Waste Tire Disposal. The remainder is distributed quarterly to counties to establish and implement waste tire programs. Monies in the fund are exempt from lapsing under A.R.S. § 35-190. Transfers totaled \$9,679,300 in FY 2017, including \$338,800 to DEQ and \$9,340,500 to counties.		
Funds Expended	0	0
Year-End Fund Balance	0	0

School Facilities Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	316,900
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	227,500
OPERATING SUBTOTAL	1,461,900	1,680,700	1,666,700
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
New School Facilities Debt Service	170,006,600	169,761,700	134,287,300
Other Programs			
Building Renewal Grants	31,667,900	33,835,800	16,667,900
Public School Credit Enhancement Transaction Costs	500,000	0	0
AGENCY TOTAL	227,889,600	292,286,600	240,248,400
FUND SOURCES			
General Fund	227,889,600	292,286,600	240,248,400
SUBTOTAL - Appropriated Funds	227,889,600	292,286,600	240,248,400
Other Non-Appropriated Funds	90,877,600	113,039,500	64,121,400
TOTAL - ALL SOURCES	318,767,200	405,326,100	304,369,800

AGENCY DESCRIPTION — The School Facilities Board (SFB) is composed of 9 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Grant Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts. In addition, SFB Staff provides support to the Credit Enhancement Eligibility Board, which operates the Arizona Public School Credit Enhancement program for district and charter schools.

Operating Budget

The Baseline includes \$1,666,700 and 17 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(14,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment (*Please see the Technical Budget Assumptions section.*)

New School Facilities

The Baseline 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 5 projects that will be authorized to begin construction in FY 2019.

New School Construction is labeled as one-time rather than ongoing in the Baseline.

(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 December 2017 meeting, the JLBC cost adjustment agenda item contained an option for a 3.12% adjustment in the cost per square foot amounts. The Committee meeting adjourned without hearing this item. This potential inflation adjustment is based on measure of construction costs since the last time the Committee 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 long-term budget estimates for SFB assume this 3.12% adjustment is adopted at a future JLBC meeting.

<u>Type of School</u>	<u>Square Feet Per Student</u>	<u>Funding Per Square Foot</u> ^{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. The amounts listed assume a 3.12% adjustment is approved by the JLBC at a future meeting.

In addition, 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 Baseline includes no funding in FY 2019 for New School Facilities which were authorized in FY 2017. The FY 2019 adjustments are as follows:

New School Funding Completion

The Baseline includes a decrease of \$(23,078,600) from the General Fund in FY 2019 for the completion of the following projects:

- Agua Fria Union UHSD (9-12) – \$(16,705,000) allocated for a 200,000 square foot new school. The school will have capacity for 1,600 students in grades 9-12. The total state cost was \$33,410,000 (\$16,705,000 in FY 2017 and \$16,705,000 in FY 2018).
- Chandler Unified (7-12) – \$(6,373,600) allocated for a 79,940 square foot high school addition. The additional space will provide added capacity for 685 students in grades 7-12. This is an expansion of Camille Casteel High School, which opened in fall 2015. The first phase of the school was constructed by Chandler USD using local monies. The total state cost was \$12,747,200 (\$6,373,600 in FY 2017 and \$6,373,600 in FY 2018).

New School Facilities (FY 2018 Authorization)

The Baseline 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 Baseline includes a decrease of \$(25,940,000) 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 Baseline eliminates the land acquisition cost and funds the remaining 50% of construction costs.

The FY 2019 Baseline funds the following projects:

- Chandler Unified (9-12) – \$3,485,000 is allocated for a high school addition at Hamilton High School. The total state cost is \$6,970,000 (\$3,485,000 in FY 2018 and \$3,485,000 in FY 2019). There was no additional land required.
- Chandler Unified (9-12) – \$5,227,500 is allocated for a high school addition at Camille Casteel High School. The addition will have capacity for 480 students in grades 9-12. The total state cost is \$10,455,000

(\$5,227,500 in FY 2018 and \$5,227,500 in FY 2019). There was no additional land required.

- **Chandler Unified (7-12)** – \$2,077,000 is allocated for a new school. The total state cost is \$4,154,000 (\$2,077,000 in FY 2018 and \$2,077,000 in FY 2019). There was no additional land required.
- **Queen Creek Unified (9-12)** – \$12,460,800 is allocated for a new high school. The total state cost is \$42,361,600. The FY 2018 funding of \$29,900,800, included \$12,260,800 for construction and \$17,640,000 for land.
- **Vail Unified (K-5)** – \$3,848,900 is allocated for a new elementary school. The total state cost is \$9,197,800. The FY 2018 funding of \$5,348,900 included \$3,848,900 for construction and \$1,500,000 for land.
- **Vail Unified (9-12)** – \$10,890,600 is allocated for a new high school. The total state cost is \$27,781,200. The FY 2018 funding of \$16,890,600 included \$10,890,600 for construction and \$6,000,000 for land.

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305, Sec 137) already appropriated the FY 2019 amounts listed above, as a result these monies will not appear in the FY 2019 General Appropriation Act.

Remove New School Construction Site Conditions

The Baseline 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.

New School Facilities (FY 2019 Authorization)

The Baseline 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 Baseline funds the following projects:

Begin New School Construction Projects

The Baseline includes an increase of \$49,636,700 from the General Fund in FY 2019 to begin construction for 5 new school projects awarded by SFB in November 2017. The Baseline assumes approximately 50% of construction

costs and 100% of land costs for each project will be appropriated in FY 2019. This amount includes:

- **Chandler Unified (9-12)** – \$2,178,100 is allocated for a high school addition at Chandler High School. The total state cost is \$4,356,200 (\$2,178,100 in FY 2019 and \$2,178,100 in FY 2020). There is no additional land required.
- **Chandler Unified (9-12)** – \$3,485,000 is allocated for a high school addition at Perry High School. The total state cost is \$6,970,000 (\$3,485,000 in FY 2019 and \$3,485,000 in FY 2020). There is no additional land required.
- **Chandler Unified (9-12)** – \$2,613,800 is allocated for a high school addition at Hamilton High School. The total state cost is \$5,227,600 (\$2,613,800 in FY 2019 and \$2,613,800 in FY 2020). There is no additional land required.
- **Queen Creek Unified (K-5)** – \$8,900,400 is allocated for a new school. The estimated total state cost is \$13,390,800. Construction costs will be \$4,490,400 in both FY 2019 and FY 2020. SFB estimates the land costs to be \$4,410,000 FY 2019.
- **Tolleson UHSD (9-12)** – \$32,459,400 is allocated new high school. The total estimated state cost is \$56,418,800. Construction costs will be \$23,959,400 in both FY 2019 and FY 2020. SFB estimates the land costs to be \$8,500,000.

New School Facilities Debt Service

The Baseline 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 Baseline 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 Baseline 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 Baseline includes \$16,667,900 from the General Fund in FY 2019 for Building Renewal Grants. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The Baseline includes a decrease of \$(17,167,900) 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. The FY 2017 and FY 2018 budgets included and additional \$15,000,000 and \$17,167,900 in one-time funding above this base amount, respectively.

Background – The Building Renewal Grant Fund was created in FY 2009 to provide grant-based funding for building renewal projects. The fund consists of legislative appropriations and is administered by SFB.

SFB distributes monies to school districts to fund "primary" building renewal projects. SFB prioritizes the projects with emphasis given to school districts that have provided routine preventative maintenance on their facility and can provide a match of monies provided by the fund. "Primary" building renewal funding is for projects required to meet the minimum school facility adequacy guidelines. (Please see Table 2 for the FY 2013 through FY 2018 Building Renewal Appropriations.)

<u>Fiscal Year</u>	<u>Appropriation</u>
2013	2,667,900
2014	16,667,900
2015	16,667,900
2016	31,667,900
2017	31,667,900
2018	33,835,800

Pursuant to A.R.S. § 15-2022, SFB is required to transfer excess funds in the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund to the extent that the transfer does not affect or disrupt any approved new construction projects. NSF Fund revenues are derived from legislative appropriations and lease-purchase proceeds. SFB estimates the EDC Fund to have a \$0 balance at the beginning of FY 2018.

The EDC Fund is used in a similar manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies that pose health or safety concerns. If there are insufficient monies in the EDC Fund for district requests, A.R.S. § 15-907 allows a district to levy an additional primary property tax to fund the repairs, with the approval of the respective County Board of Supervisors.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Pursuant to A.R.S. § 15-2041 the amount appropriated for New School Facilities shall be used only for facilities and land costs that are for school districts that received final approval from the School Facilities Board in November 2017.

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.

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.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning one-time New School Facilities appropriations.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- 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 \$(35,640,900) in FY 2020 below FY 2019 and decrease by \$(91,948,700) 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.

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 \$(33,224,100). In addition, FY 2021 new school construction spending is projected to decrease by \$(27,256,000) below FY 2020. *(Please see Table 3 for more detail on Long-Term New School Facilities funding projections.)*

These new school construction estimates assume JLBC adopts a 3.12% inflation adjustment at a future meeting. *(Please see the New School Facilities Background section for more information.)*

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.

K-12 Capital Bonding

A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation to be paid for with local property tax revenues. Article IX, Sections 8 and 8.1 of the Arizona Constitution limit non-unified and unified school district bonded indebtedness to no more than 15% or 30% of the district's assessed valuation, respectively. However, A.R.S. § 15-1021 sets statutory limits below the constitutional limits for "Class B" bonds (for those issued after December 31, 1999). School district Class B bonding is limited to 10% and 20% of property values for non-unified and unified districts, respectively.

As of the end of FY 2016, 149 school districts have outstanding voter-approved bonds. The total amount of

voter-approved bonds outstanding at the end of FY 2016 was approximately \$4.8 billion.

Class B Bond Approvals

A.R.S. § 15-2002 requires each school district to report Class B bond approvals to SFB by December 1 of each year and requires SFB to annually report to JLBC by December 31 on all Class B bond approvals by school districts in that year. 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 September 2017, 6 schools have been approved financing through the program totaling \$164.6 million – Academy of Math and Science, Arizona Agribusiness and Equine Center, Great Hearts Academies (2), BASIS Schools, and American Leadership Academy. As of September 2017, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$104,362,981 and has a leverage ratio of 0.55 (based on only issued financings of \$57.5 million). The statutory limit for the program's leverage ratio is 3.5.

Table 3

Long-Term New School Facilities Funding						
	<u>Sq. Ft.</u>	<u>Student Capacity</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
<u>FY 2017 Starts</u>^{1/}						
Agua Fria 9-12	200,000	1,600	\$16,705,000			
Chandler 7-12	79,940	685	<u>6,373,600</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - FY 2017 Starts			\$23,078,600	\$ 0	\$ 0	\$ 0
<u>FY 2018 Starts</u>						
Chandler 9-12	40,000	320	\$ 3,485,000	\$ 3,485,000		
Chandler 9-12	60,000	480	5,227,500	5,227,500		
Chandler 7-12	24,974	214	2,077,000	2,077,000		
Queen Creek 9-12	141,875	1,135	12,260,800	12,460,800		
Queen Creek 9-12 Land			17,640,000			
Vail K-5	54,000	600	3,848,900	3,848,900		
Vail K-5 Land			1,500,000			
Vail 9-12	125,000	1,000	10,890,600	10,890,600		
Vail 9-12 Land			6,000,000			
Site Conditions			<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - FY 2018 Starts			\$63,929,800	\$37,989,800	\$ 0	\$ 0
<u>FY 2019 Starts</u>						
Chandler 9-12	25,000	266		\$ 2,178,100	\$ 2,178,100	
Chandler 9-12	40,000	426		3,485,000	3,485,000	
Chandler 9-12	30,000	319		2,613,800	2,613,800	
Queen Creek K-5	63,000	788		4,490,400	4,490,400	
Queen Creek K-5 Land				4,410,000		
Tolleson 9-12	275,000	2,926		23,959,400	23,959,400	
Tolleson 9-12 Land			<u>0</u>	<u>8,500,000</u>	<u>0</u>	<u>0</u>
Subtotal - FY 2019 Starts			\$ 0	\$49,636,700	\$36,726,700	\$ 0
<u>FY 2020 Starts</u>						
Pima K-6	2,520	28			\$ 194,500	\$ 194,500
Sahuarita K-8	73,920	924			5,504,700	5,504,700
Sahuarita K-8 Land					1,700,000	
Somerton K-6	45,000	500			3,307,500	3,307,500
Somerton K-6 Land					1,500,000	
Vail K-5	54,000	675			3,969,000	3,969,000
Vail K-5 Land			<u>0</u>	<u>0</u>	<u>1,500,000</u>	<u>0</u>
Subtotal - FY 2020 Starts			\$ 0	\$ 0	\$17,675,700	\$12,975,700
<u>FY 2021 Starts</u>						
Laveen K-8	92,400	1,000				\$ 6,880,900
Vail 6-8	62,836	650				4,789,800
Vail 6-8 Land			<u>0</u>	<u>0</u>	<u>0</u>	<u>2,500,000</u>
Subtotal - FY 2021 Starts			\$ 0	\$ 0	\$ 0	\$14,170,700
Total			\$87,008,400	\$87,626,500	\$54,402,400	\$27,146,400

^{1/} Agua Fria and Chandler also received \$16.7 million and \$6.4 million, respectively in FY 2017.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Building Renewal Grant Fund (SFA2392/A.R.S. § 15-2032)		Non-Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To provide grants to school districts for maintaining the adequacy of existing school facilities. To prevent double counting, FY 2017 and FY 2018 expenditures exclude \$31,667,900 and \$33,835,800, respectively, from the General Fund. The 2018 K-12 Budget Reconciliation Bill (Laws 2017, Chapter 304) allows the board to spend \$200,000 from the fund for lead testing in school water systems in FY 2018.		
Funds Expended	0	0
Year-End Fund Balance	41,401,700	0
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
Source of Revenue: Monies transferred from the Building Renewal Grants Fund or New School Facilities Fund. A sum of \$1,000,000 was transferred from the Building Renewal Grants Fund in FY 2015.		
Purpose of Fund: To provide school districts monies for facility emergencies.		
Funds Expended	262,700	901,100
Year-End Fund Balance	901,100	0
Land Trust Bond Debt Service Fund (SFA5030/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
Purpose of Fund: To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds.		
Funds Expended	26,449,500	47,986,900
Year-End Fund Balance	24,890,900	0
Lease-to-Own Debt Service Fund (SFA2373/A.R.S. § 15-2004)		Non-Appropriated
Source of Revenue: Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation proceeds.		
Purpose of Fund: To pay the debt service on any lease-to-own agreements entered into by SFB to finance the costs of new school construction. To prevent double counting, FY 2017 and FY 2018 expenditures exclude \$170,006,600 and \$169,761,700, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	297,300	282,700
New School Facilities Fund (SFA2460/A.R.S. § 15-2041)		Non-Appropriated
Source of Revenue: Appropriated monies, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements. To prevent double counting, FY 2017 and FY 2018 expenditures exclude \$23,078,600 and \$87,008,400, respectively, from the General Fund.		
Purpose of Fund: To provide school districts with monies for constructing new school facilities, and to pay for the following: construction project management services, school building structural assessments, and land acquisition services.		
Funds Expended	0	0
Year-End Fund Balance	11,206,400	898,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Public School Credit Enhancement Fund (SFA9999/A.R.S. § 15-2154)		Non-Appropriated
<p>Source of Revenue: Revenues include fees paid by participating schools, repayments of monies used to make payments of principal and interest on guaranteed financings, proceeds of program funding obligations, gifts, grants, and donations. The Credit Enhancement Budget Reconciliation Bill (Laws 2016, Chapter 129) repealed the Access Our Best Public Schools Fund effective September 1, 2017 and required the transfer of the fund balance of \$23,900,000 from the Access Our Best Public Schools Fund during FY 2017 to the Arizona Public School Credit Enhancement Fund. The fund is administered by the Treasurer's Office. <i>(Please see the State Treasurer's Section for more information.)</i></p> <p>Purpose of Fund: To make payments of principal or interest on guaranteed financings. To pay administrative expenses for the Arizona Credit Enhancement Program. SFB allows the Governor's Office to administer the program.</p>		
Funds Expended	0	0
Year-End Fund Balance	0	0
School Improvement Revenue Bond Debt Service Fund (SFA5020/A.R.S. § 15-2084)		Non-Appropriated
<p>Source of Revenue: Revenues from a 0.6% increase in the state Transaction Privilege Tax (as approved under Proposition 301 in the 2000 General Election) and monies credited to the fund from the Permanent State School Fund.</p> <p>Purpose of Fund: To pay the debt service on \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in QZAB revenue bonds.</p>		
Funds Expended	64,165,400	64,151,500
Year-End Fund Balance	9,092,200	9,090,300

Department of State - Secretary of State

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	2,273,000
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	2,694,800
Equipment	148,800	50,000	50,000
OPERATING SUBTOTAL	11,997,200	12,193,500	11,555,200
SPECIAL LINE ITEMS			
Election Services	2,359,400	0	0
Help America Vote Act (HAVA)	1,458,100	2,943,700	2,941,100
Library Grants-in-Aid	549,900	651,400	651,400
Primary and General Election Funding - County Pass Through	0	0	2,100,000
Primary and General Election Funding - Other State Costs	0	0	1,284,500
Special Election	6,255,600	0	0
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
AGENCY TOTAL	22,717,200	15,885,600	18,629,200
FUND SOURCES			
General Fund	20,566,400	12,190,100	14,947,700
<u>Other Appropriated Funds</u>			
Election Systems Improvement Fund	1,458,100	2,943,700	2,941,100
Records Services Fund	692,700	751,800	740,400
SUBTOTAL - Other Appropriated Funds	2,150,800	3,695,500	3,681,500
SUBTOTAL - Appropriated Funds	22,717,200	15,885,600	18,629,200
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	20,125,100	22,868,700

AGENCY DESCRIPTION — The Secretary of State is an elected Constitutional Officer. The Department of State is responsible for recordings and filings under the Uniform Commercial Code (U.C.C.); coordinating statewide elections; receiving 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 Baseline includes \$11,555,200 and 141.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$10,814,800
Record Services Fund	740,400

FY 2019 adjustments are as follows:

Remove One-Time Operating Funding

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2019 for one-time department expenses.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(138,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This amount consists of:

General Fund	(126,900)
Record Services Fund	(11,400)

(Please see the Technical Budget Assumptions section.)

Help America Vote Act (HAVA)

The Baseline includes \$2,941,100 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,600) from the Election Systems Improvement Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections. The state received federal monies to support the goals of HAVA. The only current source of revenue for this fund has been interest income.

As of June 30, 2017, the balance of the Election Systems Improvement Fund was \$3,228,000. At the current rate of appropriation, along with minor technical adjustments, there would only be \$548,900 for expenditure in FY 2019. The Secretary of State (SOS) anticipates that monies in this fund may be utilized for the new voter registration system.

Library Grants-in-Aid

The Baseline 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.

Primary and General Election Funding - County Pass Through

The Baseline includes \$2,100,000 from the General Fund in FY 2019 for the reimbursement of counties' election costs. FY 2019 adjustments are as follows:

2018 Primary and General Election Funding

The Baseline includes an increase of \$2,100,000 from the General Fund in FY 2019 for county funding for the Primary Election to be held on August 28, 2018 and the General Election on November 6, 2018.

The Baseline restores election funding in FY 2019 since there were no regularly scheduled state elections in FY 2018 (July 2017 to June 2018). The FY 2018 enacted budget 3-year spending plan included a total increase of \$3,384,500 in FY 2019 for the cost of the 2018 Primary and General Elections.

Of this \$3,384,500 total election funding amount, the Baseline allocates \$2,100,000 to this line item in order to separately delineate monies which are distributed for county expenditures on the 2018 elections. The remaining \$1,284,500 is allocated to the Primary and General Election Funding - Other State Costs line item for state costs for the 2018 elections.

This line item reimburses counties for costs associated with printing and mailing the sample ballots to households and for the costs associated with counties verifying initiative/referendum signatures. These county reimbursements totaled \$1,704,400 for the 2016 Primary and General Elections, which were funded in FY 2017.

The Baseline includes several footnotes for this line item, including: 1) Requiring SOS to transfer monies from the operating budget or other line items to this line item before expenditure in order to consolidate all county pass through expenditures in a single place; and 2) A separate footnote requires JLBC review prior to the movement of monies in or out of this line item.

Primary and General Election Funding - Other State Costs

The Baseline includes \$1,284,500 from the General Fund in FY 2019 for the state's 2018 Primary and General Elections costs. FY 2019 adjustments are as follows:

2018 Primary and General Election Funding

The Baseline includes an increase of \$1,284,500 from the General Fund in FY 2019 for the SOS's direct costs for state elections during FY 2019. This increase, combined with the \$2,100,000 allocated to the Primary and General Election Funding - County Pass Through line, result in a total election funding amount of \$3,384,500 assumed in the FY 2018 enacted budget 3-year spending plan.

This line item includes funding for the state election costs, such as mailing the statewide publicity pamphlets and other expenditures by the SOS for the 2018 Primary Election and 2018 General Election.

Statewide Radio Reading Service for the Blind

The Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Included in the operating lump sum appropriation of \$11,555,200 for FY 2019 is \$5,000 for the purchase of mementos and items for visiting officials.

The FY 2019 appropriation from the Election Systems Improvement Fund for the Help America Vote Act is available for use pursuant to A.R.S. § 35-143.01C and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until June 30, 2020.

The Secretary of State shall report to the Joint Legislative Budget Committee and the Governor’s Office of Strategic Planning and Budgeting on or before December 31, 2018 the actual amount and purpose of expenditures from the Election Systems Improvement Fund established by A.R.S. § 41-129 in FY 2018 and the expected amount and purpose of expenditures from the fund for FY 2019.

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.

The \$651,400 appropriation from the General Fund for the Library Grants-in-Aid Special Line Item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190.

New Footnotes

The appropriation for the Primary and General Election Funding - County Pass Through line item shall be used only for reimbursing counties for the costs of state

elections. Monies in the operating lump sum or other line items intended to be spent for county reimbursement shall be transferred to the Primary and General Election Funding - County Pass Through line item prior to expenditure. Any transfer to or from the amount appropriated for the Primary and General Election Funding - County Pass Through line item shall require prior review by the Joint Legislative Budget Committee. *(Prior year footnotes required JLBC review for transfers to or from the Election Services line item. This footnote applies this requirement to the newly-created Primary and General Election Funding - County Pass Through line item. In addition, it limits county reimbursement expenditures to this line item which will consolidate expenditures for this purpose in a single place.)*

Other Issues

FY 2016 Special Election

In FY 2016, \$9,300,000 was appropriated from the General Fund to pay for a statewide special election held in May 2016 to consider Proposition 123 and Proposition 124. The appropriation for the special election is 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 FY 2017 spending totaling \$6,255,600 for reimbursed claims. As of November 2017, SOS has expended an additional \$40,700 of these monies in FY 2018. There may be some minor additional reimbursements that are made for the election. This leaves approximately \$3.0 million remaining from the Special Election appropriation.

FY 2018 Special Election

Due to a vacancy occurring, a special election in the 8th Congressional District has been scheduled during FY 2018. The special Primary Election will be held on February 27, 2018 and the special General Election will be held on April 24, 2018. The Secretary of State has estimated that the total cost for the special election would be \$2.8 million.

The state’s most recent Congressional special election occurred in FY 2012. The state appropriated \$1.9 million for that election.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Address Confidentiality Program Fund (STA2557/A.R.S. § 41-169)		Non-Appropriated
<i>Source of Revenue:</i> An assessment of \$50 imposed on all persons convicted of domestic violence, stalking, or certain sexual offenses.		
<i>Purpose of Fund:</i> To administer the Address Confidentiality Program. This program allows the Secretary of State to establish an alternate public address to protect victims of domestic violence, stalking, and sexual offenses.		
Funds Expended	260,400	345,500
Year-End Fund Balance	330,700	238,300
Arizona Blue Book Revolving Fund (STA2006/A.R.S. § 41-131)		Non-Appropriated
<i>Source of Revenue:</i> Proceeds from the sales of Arizona Blue Books and legislative appropriations.		
<i>Purpose of Fund:</i> To publish the Arizona Blue Book, which contains information about the state's Executive, Legislative, and Judicial Branches.		
Funds Expended	0	0
Year-End Fund Balance	11,200	11,200
Data Processing Acquisition Fund (STA2265/A.R.S. § 18-441)		Non-Appropriated
<i>Source of Revenue:</i> A special recording fee on Uniform Commercial Code and other filings.		
<i>Purpose of Fund:</i> To defray the cost of improving data processing within the Office of the Secretary of State. Any uncommitted monies in excess of \$250,000 at the close of the calendar year revert to the General Fund.		
Funds Expended	155,200	75,000
Year-End Fund Balance	249,200	253,200
Election Systems Improvement Fund (STA2357/A.R.S. § 41-129)		Appropriated
<i>Source of Revenue:</i> Monies received from the United States government, matching monies from state, county or local governments, legislative appropriations, gifts, grants, and donations.		
<i>Purpose of Fund:</i> To implement the provisions of the Help America Vote Act (HAVA) (P.L. 107-252). HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections, implementation of a statewide voter registration database, and implementation of a voting system that meets federal standards.		
Funds Expended	1,458,100	2,943,700
Year-End Fund Balance	3,228,000	548,900
Election Training Fund (STA2521/A.R.S. § 16-407)		Non-Appropriated
<i>Source of Revenue:</i> Receives money from cities and towns whose employees take election training courses.		
<i>Purpose of Fund:</i> To provide election training to officials from cities and towns.		
Funds Expended	300	6,500
Year-End Fund Balance	6,400	3,400
Federal Grants (LAA2000/A.R.S. § 41-151.06)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants awarded to the state for library purposes.		
<i>Purpose of Fund:</i> Prescribed by the federal grantor for statewide library purposes.		
Funds Expended	3,019,600	3,368,600
Year-End Fund Balance	243,600	243,600
IGA and ISA Fund (STA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Intergovernmental Agreements and Internal Service Agreements with other state agencies.		
<i>Purpose of Fund:</i> To record and manage Intergovernmental Agreements and Internal Service Agreements.		
Funds Expended	0	0
Year-End Fund Balance	5,400	5,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Museum Gift Shop Revolving Fund (LAA4008/A.R.S. § 41-151.24)		Non-Appropriated
<i>Source of Revenue:</i> Proceeds from the sale of merchandise at the Capitol Museum Gift Shop.		
<i>Purpose of Fund:</i> To provide for state-related inventory to be sold at the Capitol Museum Gift Shop.		
Funds Expended	119,500	105,000
Year-End Fund Balance	24,000	18,400
Notary Bond Fund (STA2387/A.R.S. § 41-314)		Non-Appropriated
<i>Source of Revenue:</i> The fund receives a portion of the fee collected from the processing of notary bonds.		
<i>Purpose of Fund:</i> To defray the cost associated with the processing and administration of notary bonds.		
Funds Expended	112,100	101,800
Year-End Fund Balance	234,300	382,500
Professional Employer Organization Fund (STA2520/A.R.S. § 23-576)		Appropriated
<i>Source of Revenue:</i> Professional Employer Organization (PEO) registration and renewal fees.		
<i>Purpose of Fund:</i> To pay the costs of administering PEO registration and investigating any allegations of malfeasance. The FY 2014 Government Budget Reconciliation Bill (Laws 2013, 1st Special Session, Chapter 2) delayed the implementation of the PEO registration program until the end of FY 2023.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Records Services Fund (LAA2431/A.R.S. § 41-151.12)		Appropriated
<i>Source of Revenue:</i> Fees collected from state agencies, political subdivisions, and other governmental units for records storage services.		
<i>Purpose of Fund:</i> To help defray costs of preserving and managing the state of Arizona's public records.		
Funds Expended	692,700	751,800
Year-End Fund Balance	549,700	821,600
Standing Political Committee Administrative Fund (STA2426/A.R.S. § 41-128)		Non-Appropriated
<i>Source of Revenue:</i> Filing fees paid by standing political committees.		
<i>Purpose of Fund:</i> To pay the costs of administering and enforcing the campaign finance laws relating to standing political committees.		
Funds Expended	0	0
Year-End Fund Balance	78,600	78,900
State Library Fund (LAA2115/A.R.S. § 41-151.06)		Non-Appropriated
<i>Source of Revenue:</i> Private donations, private grants and monies collected through charges for reproduction of materials in the Research Division.		
<i>Purpose of Fund:</i> To improve statewide library service.		
Funds Expended	196,500	237,100
Year-End Fund Balance	1,555,500	1,521,600

State Board of Tax Appeals

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	46,300	44,600
Travel - In State	300	400	400
Other Operating Expenditures	39,600	42,600	42,600
AGENCY TOTAL	266,400	268,300	266,600
FUND SOURCES			
General Fund	266,400	268,300	266,600
SUBTOTAL - Appropriated Funds	266,400	268,300	266,600
TOTAL - ALL SOURCES	266,400	268,300	266,600

AGENCY DESCRIPTION — The board consists of 3 members appointed by the Governor. The board provides an independent appeals process for taxpayers with disputes relating to income, sales, use, estate, and luxury tax decisions from the Department of Revenue and resolves jurisdictional disputes between municipalities regarding the imposition of transaction privilege and use taxes.

Operating Budget

The Baseline includes \$266,600 and 4 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,700) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

* * *

FORMAT — Lump Sum by Agency

State Board of Technical Registration

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	439,000
Professional and Outside Services	33,100	228,600	228,600
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	408,200
Equipment	124,700	0	0
AGENCY TOTAL	2,265,000	2,233,700	2,204,400
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Technical Registration Fund	2,265,000	2,233,700	2,204,400
SUBTOTAL - Other Appropriated Funds	2,265,000	2,233,700	2,204,400
SUBTOTAL - Appropriated Funds	2,265,000	2,233,700	2,204,400
Other Non-Appropriated Funds	293,300	33,400	33,400
TOTAL - ALL SOURCES	2,558,300	2,267,100	2,237,800

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of architects, engineers, geologists, home inspectors, land surveyors, and landscape architects.

Operating Budget

* * *

The Baseline includes \$2,204,400 and 25 FTE Positions from the Technical Registration Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(29,300) from the Technical Registration Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Technical Registration Fund (TEA2070/A.R.S. § 32-109)		Appropriated
Source of Revenue: Monies collected by the board from examinations and licensing of architects, assayers (assessors of mineral value), engineers, geologists, land surveyors, landscape architects, and home inspectors. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate architects, assayers, engineers, geologists, land surveyors, landscape architects, and home inspectors, and for board administration.		
Funds Expended	2,265,000	2,233,700
Year-End Fund Balance	2,848,100	2,804,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Technical Registration Board of Investigations Fund (TEA2072/A.R.S. § 32-128)		Non-Appropriated
Source of Revenue: Court assessments, fines, forfeitures and other penalties.		
Purpose of Fund: To fund the cost of disciplinary investigations relating to fraudulent or misrepresented certifications, gross negligence or other similar misconduct. Laws 2016, Chapter 352 required all unexpended and unencumbered monies in this fund relating to the \$15 assessment for drug offenses pursuant to A.R.S. § 12-116.08 as of August 6, 2016 to be transferred to the Hazardous Waste Management Fund established in A.R.S. § 49-927.		
Funds Expended	293,300	33,400
Year-End Fund Balance	109,900	141,900

Office of Tourism

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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
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 Baseline 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.

* * *

FORMAT — Lump Sum in the form of a deposit to the Tourism Fund

Other Issues

Funding Sources

The Office of Tourism receives funding from 3 primary sources: 1) a General Fund appropriation to fund the agency's operating budget; 2) a transfer from AZSTA, generated from partial allocations of a bed tax and car rental tax in Maricopa County (A.R.S. § 5-835), to fund Maricopa County tourism promotion; and 3) a portion of tribal gaming contributions (A.R.S. § 5-601.02) to fund 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, or a total General Fund cost of \$45.0 million.

Additionally, Chapter 366 requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year.

In November 2016, the parent company of Phoenix International Raceway (PIR), International Speedway Corporation, announced plans to make \$178.0 million in renovations to the raceway. PIR hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to PIR began in February 2017 and are expected to be completed by November 2018. As of November 2017, PIR 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>6,652,400 ^{2/}</u>	<u>6,652,400 ^{2/}</u>
Total		\$21,435,900	\$22,015,000	\$22,377,100

^{1/} The numbers displayed represent revenues to the agency and may not correspond directly with the agencies' actual expenditure or appropriation amounts.
^{2/} The Tribal Gaming amounts for FY 2018 and FY 2019 are JLBC estimates.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Tourism Fund (TOA2236/A.R.S. § 41-2306)		Non-Appropriated
Source of Revenue: The Tourism Fund receives a transfer from the Arizona Sports and Tourism Authority (AZSTA) to be used for tourism promotion in Maricopa County. AZSTA receives revenue derived from a 1% increase in the bed tax and a 3.25% increase in the car rental tax. Of this amount, AZSTA transferred \$7,927,200 in FY 2017 to the Tourism Fund. This transfer increases each year by 5%. The fund also receives a portion of tribal gaming contributions, pursuant to Proposition 202 from 2002. Finally, A.R.S. § 41-2306 allows the Tourism Fund to receive General Fund appropriations. General Fund appropriation expenditures are not displayed to avoid double counting of appropriations. Laws 2016, Chapter 366 also provides for an annual General Fund appropriation of \$1.5 million to the State Treasurer to be deposited into the Tourism Fund beginning in FY 2022 through FY 2051. The funding is to be used to promote an auto racing sporting event conditional upon the event spending at least \$100 million on land acquisitions, constructions, improvements or renovations of the event facilities.		
Purpose of Fund: To pay for all costs associated with Office of Tourism activities.		
Funds Expended	14,120,700	14,650,600
Year-End Fund Balance	3,606,800	3,606,800

Department of Transportation

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,552.0	4,552.0	4,552.0
Personal Services	104,717,200	108,096,500	108,096,500
Employee Related Expenditures	45,985,400	50,558,400	47,361,400
Professional and Outside Services	10,389,800	10,968,800	10,968,800
Travel - In State	918,000	1,154,500	1,154,500
Travel - Out of State	179,000	188,400	188,400
Other Operating Expenditures	18,742,200	21,728,100	21,929,100
Equipment	18,122,000	15,956,400	12,972,900
OPERATING SUBTOTAL	199,053,600	208,651,100	202,671,600
SPECIAL LINE ITEMS			
Attorney General Legal Services	3,477,700	3,577,700	3,577,700
Driver Safety and Livestock Control	0	2,400,000	800,000
Flagstaff Building Equipment	0	2,530,000	0
Fraud Investigation	744,200	781,900	767,000
Highway Maintenance	132,650,600	147,108,200	130,705,200
Highway Damage Recovery Account	0	0	3,000,000
New Third-Party Funding	554,600	634,900	629,600
Phoenix Area Freeway Lighting	1,499,900	1,500,000	1,500,000
Statewide Drainage Structures	4,300,000	4,300,000	4,300,000
Vehicle Replacement	0	0	15,300,000
Vehicles and Heavy Equipment	16,888,200	18,726,300	18,474,600
Grand Canyon Airport Projects	0	466,000	0
AGENCY TOTAL	359,168,800	390,676,100	381,725,700
FUND SOURCES			
General Fund	49,800	50,500	50,400
<u>Other Appropriated Funds</u>			
Air Quality Fund	161,600	161,700	161,700
Driving Under the Influence Abatement Fund	149,300	153,400	152,200
Highway Damage Recovery Account	0	3,000,000	3,000,000
Highway User Revenue Fund	602,200	656,100	649,700
Motor Vehicle Liability Insurance Enforcement Fund	1,295,200	1,332,400	1,308,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,832,600	1,897,400	1,868,300
State Aviation Fund	1,573,500	2,103,100	1,816,800
State Highway Fund	335,181,400	361,130,800	352,793,100
Transportation Department Equipment Fund	16,888,200	18,726,300	18,474,600
Vehicle Inspection and Certificate of Title Enforcement Fund	1,435,000	1,464,400	1,450,200
SUBTOTAL - Other Appropriated Funds	359,119,000	390,625,600	381,675,300
SUBTOTAL - Appropriated Funds	359,168,800	390,676,100	381,725,700
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	448,625,900	439,974,800

AGENCY DESCRIPTION — The Department of Transportation has jurisdiction over state roads, state airports, and the registration of motor vehicles and aircraft.

Operating Budget

The Baseline includes \$202,671,600 and 3,390 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$50,400
Air Quality Fund	161,700
Driving Under the Influence (DUI) Abatement Fund	152,200
Highway User Revenue Fund	452,600
Motor Vehicle Liability Insurance Enforcement Fund	1,209,800
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,308,300
State Aviation Fund	1,816,800
State Highway Fund	196,156,700
Vehicle Inspection and Certificate of Title Enforcement Fund	1,363,100

FY 2019 adjustments are as follows:

Special Line Item Shift

The Baseline includes a decrease of \$(2,983,500) from the State Highway Fund in FY 2019 for a shift in resources from the operating budget 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. This shift is intended to consolidate all vehicle replacement costs in a single line item. *(Please see the Vehicle Replacement line item and Highway Maintenance line item sections for more information.)*

Operating Budget Shift

The Baseline includes an increase 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 amount supports maintenance of an airplane monitoring system, continued replacement of firefighter equipment, and runway maintenance.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(3,197,000) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(100)
DUI Abatement Fund	(1,200)
Highway User Revenue Fund	(6,400)
Motor Vehicle Liability Insurance Enforcement Fund	(23,700)
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	(29,100)
State Aviation Fund	(21,300)
State Highway Fund	(3,101,900)
Vehicle Inspection and Certificate of Title Enforcement Fund	(13,300)

(Please see the Technical Budget Assumptions section.)

Attorney General Legal Services

The Baseline includes \$3,577,700 from the State Highway Fund in FY 2019 for Attorney General Legal Services. This amount is unchanged from FY 2018.

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.

Driver Safety and Livestock Control

The Baseline 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 Baseline 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 Baseline 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 Baseline 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.

Fraud Investigation

The Baseline includes \$767,000 and 10 FTE Positions from the State Highway Fund in FY 2019 for Fraud Investigation. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(14,900) from the State Highway Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This line item funds the investigation of fraudulent driver licenses and motor vehicle documents.

Highway Maintenance

The Baseline includes \$130,705,200 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	130,145,200

FY 2019 adjustments are as follows:

Special Line Item Shift

The Baseline includes a decrease of \$(12,316,500) from the State Highway Fund in FY 2019 for a shift in resources from the operating budget 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. This shift is intended to consolidate all vehicle replacement costs in a single line item. *(Please see the Vehicle Replacement line item and operating budget section for more information.)*

Special Line Item Shift

The Baseline includes a decrease 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 Damage Recovery Account line item for more information.)

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,086,500) from the State Highway Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 \$130,705,200 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.

Highway Damage Recovery Account

The Baseline includes \$3,000,000 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 Baseline 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.)*

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.

New Third-Party Funding

The Baseline includes \$629,600 and 20 FTE Positions in FY 2019 for New Third-Party Funding. These amounts consist of:

Highway User Revenue Fund	197,100
Motor Vehicle Liability Insurance Enforcement Fund	98,900
State Highway Fund	246,500
Vehicle Inspection and Certificate of Title Enforcement Fund	87,100

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,300) for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

State Highway Fund	(4,400)
Vehicle Inspection and Certificate of Title Enforcement Fund	(900)

This line item funds the review of third-party transactions for accuracy. The funding also provides support for authorized third-parties, which allow customers to receive Motor Vehicle Division services at non-ADOT locations.

Phoenix Area Freeway Lighting

The Baseline includes \$1,500,000 from the State Highway Fund in FY 2019 for Phoenix Area Freeway Lighting. This amount is unchanged from FY 2018.

This line item funds the maintenance of approximately 15,000 freeway lights in the Phoenix Metropolitan area.

Statewide Drainage Structures

The Baseline includes \$4,300,000 from the State Highway Fund in FY 2019 for statewide drainage structures. This amount is unchanged from FY 2018.

This line item funds the removal of silt in pipes, culverts and drainage structures. Drainage structures prevent flooding and degradation of the state highway system.

Vehicle Replacement

The Baseline 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 Baseline 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 would require vehicle and heavy equipment replacement to be funded only from this line item.

Vehicles and Heavy Equipment

The Baseline includes \$18,474,600 and 200 FTE Positions from the Transportation Department Equipment Fund in FY 2019 for Vehicles and Heavy Equipment. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(251,700) from the Transportation Department Equipment Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

This line item funds the maintenance and repair of the department's vehicle and equipment fleet.

Grand Canyon Airport Projects

The Baseline includes no funding in FY 2019 for Grand Canyon Airport Projects. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(265,000) from the State Aviation Fund in FY 2019 the elimination of one-time funding.

These one-time projects included an airplane monitoring system to ensure proper charging of customer fees; firefighter equipment replacement; and security system improvements.

Operating Budget Shift

The Baseline 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 amount supports maintenance of the monitoring system, continued replacement of firefighter equipment, and runway maintenance.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Of the total amount appropriated, \$130,705,200 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.

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.

It is the intent of the Legislature that the department not include any administrative overhead expenditures in duplicate driver license fees charged to the public.

Of the total amount appropriated, the Department of Transportation shall pay \$15,981,300 in FY 2019 from all funds to the Department of Administration for its Risk Management payment.

The Department of Transportation shall submit an annual report to the Joint Legislative Budget Committee on progress in improving Motor Vehicle Division wait times and vehicle registration renewal by mail turnaround times in a format similar to prior years. The report is due on or before July 31, 2019 for FY 2019.

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.

On or before August 1, 2018, the department shall report to the Director of the Joint Legislative Budget Committee

on the state's share of fees retained by the ServiceArizona vendor in the prior fiscal year. The report shall also include the amount spent by the ServiceArizona vendor on behalf of this state in the prior fiscal year, as well as a list of the projects funded with those monies.

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.

New Footnotes

All 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. *(The new line item is intended to be the only line item from which the department funds the replacement of its vehicle and heavy equipment fleet.)*

Deletion of Prior Year Footnotes

The Baseline would delete the one-time reporting footnote on the linkage costs associated with the new Motor Vehicle Division automated system.

Other Issues

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. At the end of FY 2017, \$26.9 million had been spent on the project out of a \$56.0 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 no longer be 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.

The following 3 special plates were added in 2017:

- Science Education Special Plate (Laws 2017, Chapter 75)
- Collector Car Auction Special Plate (Laws 2017, Chapter 110)
- Active Duty Military Installation Support Special Plate (Laws 2017, Chapter 110)

Table 2

Special License Plates ^{1/2/3/}

<u>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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Abandoned Vehicle Administration Fund (DTA2150/A.R.S. § 28-4804)		Non-Appropriated
Source of Revenue: Abandoned vehicle fees, of which the amounts are determined by the ADOT Director. Currently, for vehicles on private or local land, the owner pays a fee of \$500 and for vehicles abandoned on state or federal land, the owner pays a fee of \$600.		
Purpose of Fund: Established by Laws 2017, Chapter 249, the fund partially reimburses towing companies for abandoned vehicle removal. Chapter 249 modified the reimbursement to the towing company from a flat \$100 for fees from vehicles abandoned on state or federal land to a 20% reimbursement regardless of location. After that disbursement, to statutorily distribute remaining fee revenues to the General Fund and State Highway Fund, with a 90/10 split, respectively, for fees from vehicles abandoned on private or local land and a 60/40 split for fees from vehicles abandoned on state or federal land.		
Funds Expended	0	916,700
Year-End Fund Balance	0	0
Air Quality Fund (DTA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: An annual \$1.50 air quality fee collected for each vehicle at the time of registration. ADOT is appropriated monies from the Air Quality Fund in the Department of Environmental Quality (DEQ).		
Purpose of Fund: For tracking the availability and sales of oxygenated fuels to ensure that a sufficient supply is available for non-attainment areas of the state.		
Funds Expended	161,600	161,700
Year-End Fund Balance	72,800	72,800
Arizona Highways Magazine Fund (DTA2031/A.R.S. § 28-7315)		Non-Appropriated
Source of Revenue: Sales of subscriptions, maps, pamphlets, and other materials, Arizona Highways special plate donations, and interest earnings. The fund can also consist of monies appropriated by the Legislature from the State Highway Fund, not to exceed \$500,000 annually. There are no current appropriations.		
Purpose of Fund: For production and sales of subscriptions, maps, pamphlets, etc. Remaining balances in this revolving fund at the end of a fiscal year shall not revert to the State General or State Highway Fund and expenditures are exempt from statutory allotment provisions.		
Funds Expended	4,453,000	4,589,800
Year-End Fund Balance	4,272,300	4,544,100
Cash Deposits Fund (DTA2266/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Deposits from individuals either bidding at auction on department property or renting department property.		
Purpose of Fund: To hold deposits from individuals bidding on excess land and property for sale at auction, which are either applied against their purchase price or are returned to the individual if their bid is unsuccessful. Also, to hold deposits from individuals who rent department property. Their money is either refunded at the end of their tenancy or is used to offset repairs, if needed.		
Funds Expended	0	0
Year-End Fund Balance	1,050,700	0
Contract Counsel Fund (DTA4212/A.R.S. § 28-6925)		Non-Appropriated
Source of Revenue: An amount of \$30,000 was originally appropriated from the State Highway Fund to the Contract Counsel Fund. The Arizona Department of Administration replenishes expended monies from State Highway Fund monies appropriated for construction of state highways, as ADOT submits itemized statements detailing their expenditures from the Contract Counsel Fund.		
Purpose of Fund: To reimburse the Attorney General for attorneys' services for rights-of-way condemnation cases on federal aid projects.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Driving Under the Influence Abatement Fund (DTA2422/A.R.S. § 28-1304)		Appropriated
Source of Revenue: A fee of \$250 to be paid by every offender convicted of an extreme driving under the influence (DUI) offense. An extreme DUI violation is defined as a person possessing a blood alcohol concentration of 0.15 or greater. Another portion of monies is from civil penalties against an ignition interlock manufacturer or installer who fails to properly report ignition interlock data to the ADOT Director.		
Purpose of Fund: To fund DUI-related programs. The Oversight Council on Driving or Operating Under the Influence Abatement distributes 25% of the revenues to fund pilot programs that use emerging technologies to deter occurrences of driving under the influence, and at least 70% of the monies to fund subdivisions and tribal governments for enforcement purposes and alcohol abuse treatment services. The Arizona Criminal Justice Commission staffs the Council. ADOT and the Department of Public Safety (DPS) receive grant funds from the Council. Not more than 5% of the monies are to be used for administrative purposes.		
Funds Expended	149,300	153,400
Year-End Fund Balance	44,700	43,500
Economic Strength Project Fund (DTA2244/A.R.S. § 28-7282)		Non-Appropriated
Source of Revenue: The fund receives \$1,000,000 each June 15 from the Highway User Revenue Fund and interest from investment of inactive balances.		
Purpose of Fund: For "economic strength" highway projects recommended by the Arizona Commerce Authority and approved by the State Transportation Board. These are projects that will retain or increase a significant number of jobs, lead to significant capital investment, or make a significant contribution to the economy of this state or within a local authority. Monies remaining in the Economic Strength Project Fund at the end of a fiscal year do not revert to the General Fund. Figures exclude expenditures for capital highway construction projects. <i>(See the ADOT Capital Outlay Budget section for capital expenditures not shown here.)</i>		
Funds Expended	0	0
Year-End Fund Balance	1,523,000	1,534,000
Federal Grants (DTA2097/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Federal grants, other than aviation federal grants.		
Purpose of Fund: For federal highway construction and maintenance; assistance to elderly and handicapped; rural public transit; technical studies; rail planning and rehabilitation; other planning; highway statistical reporting; fatal accident reporting; safety; commercial driver's license; library updates; and fuel tax evasion. Figures exclude expenditures for capital highway construction projects. <i>(See the ADOT Capital Outlay Budget section for capital expenditures not shown here.)</i>		
Funds Expended	1,995,000	1,995,000
Year-End Fund Balance	977,100	25,110,700
Highway Damage Recovery Account (DTA8888/A.R.S. § 28-6994)		Appropriated
Source of Revenue: Reimbursements for highway damage repair expenses paid by liable third parties.		
Purpose of Fund: For maintenance of state highways. The FY 2018 Budget Procedures Bill (Laws 2017, Chapter 307) created the subaccount for ADOT to deposit all highway damage repair reimbursements. A footnote in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) prevents ADOT from crediting these reimbursements as negative expenditures.		
Funds Expended	0	3,000,000
Year-End Fund Balance	0	500,000
Highway Expansion and Extension Loan Program Fund (DTA2417/A.R.S. § 28-7674)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; monies received from the federal government, state agencies, political subdivisions and Indian tribes; interest; and public or private gifts, grants or donations.		
Purpose of Fund: To create a state infrastructure bank under the Federal State Infrastructure Bank Act to provide financial assistance to political subdivisions, Indian tribes and state agencies for eligible transportation projects. The fund makes loans to ADOT, cities, and other entities to accelerate highway construction projects. The loans are repaid from future programmed funds for those projects. The fund may be used to pay costs to administer the fund and shall pay costs of an annual financial audit of the fund. The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) included a one-time appropriation of \$30.0 million from the fund in each of FY 2018 and FY 2019 for local highway construction.		
Funds Expended	0	0
Year-End Fund Balance	59,950,800	30,400,800

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Highway User Revenue Fund (DTA3113/A.R.S. § 28-6533)		Appropriated
Source of Revenue: Transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, driver's license, interest earnings, and others.		
Purpose of Fund: For various highway related purposes in the state, including distributions to the State Highway Fund which is the primary source for the department's operating budget and to political subdivisions for highway purposes. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	602,200	656,100
Year-End Fund Balance	119,942,700	121,648,900
IGA and ISA Fund (DTA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency service agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements. Primarily for ISA with DEQ for administration of Underground Storage Tank funds.		
Funds Expended	171,700	240,000
Year-End Fund Balance	66,600	66,600
Ignition Interlock Device Fund (DTA9997/A.R.S. § 28-1469)		Appropriated
Source of Revenue: An ignition interlock installation fee charged by service providers and then remitted to ADOT.		
Purpose of Fund: Established by Laws 2017, Chapter 331, the fund provides for administration of ADOT's Ignition Interlock Device program, including compliance measures, audits and investigating complaints related to devices and providers.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Arizona International Development Authority Fund (DTA1994/A.R.S. § 41-4505 [Repealed])		Non-Appropriated
Source of Revenue: The fund consists of monies received from the federal government, tolls, fees, gifts, grants, donations from any public or private source, interest earnings, and any other monies received by the Arizona International Development Authority (AIDA).		
Purpose of Fund: To pay costs associated with the administration of the fund and to carry out the requirements of AIDA. Monies in the fund can also be used to provide grants or loans for international transportation and infrastructure projects. ADOT is required to provide staff support to AIDA including general administrative, office, equipment and staff support, using earnings from the fund. Laws 2016, Chapter 372 repealed the Arizona International Development Authority Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Local Agency Deposits Fund (DTA3701/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Monies received from local jurisdictions.		
Purpose of Fund: To pay for locally sponsored secondary road construction projects. Any money left after the project is closed out is returned to the local entity. Figures exclude expenditures for capital highway construction projects. <i>(See the ADOT Capital Outlay Budget section for capital expenditures not shown here.)</i>		
Funds Expended	5,459,300	5,459,300
Year-End Fund Balance	13,532,500	12,532,500
Maricopa Regional Area Road Fund (DTA2029/A.R.S. § 28-6302)		Non-Appropriated
Source of Revenue: The fund consists of all transportation excise taxes collected pursuant to A.R.S. § 42-1482 and A.R.S. § 42-1482.01 that are designated for deposit in the Regional Area Road Fund in Maricopa County, plus proceeds from the sale of bonds, rents, and interest earnings.		
Purpose of Fund: For bond related expenses and for the design, purchase of right-of-way or construction of controlled access highways which are included in the county's regional transportation plan and accepted into the state highway system. Figures exclude expenditures for capital highway construction projects. <i>(See the ADOT Capital Outlay Budget section for capital expenditures not shown here.)</i>		
Funds Expended	42,102,000	42,102,000
Year-End Fund Balance	412,379,600	259,631,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Motor Carrier Safety Revolving Fund (DTA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material; and monies received from private grants or donations.		
Purpose of Fund: To carry out the provisions of the chapter. DPS conducts investigations, the Motor Vehicle Division administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	36,600	27,000
Year-End Fund Balance	21,800	800
Motor Vehicle Liability Insurance Enforcement Fund (DTA2285/A.R.S. § 28-4151)		Appropriated
Source of Revenue: Fees received by the department pursuant to A.R.S. Title 28, Chapter 9, Article 4 (mandatory motor vehicle insurance), such as fees to reinstate drivers' licenses and vehicle registrations canceled due to lack of insurance.		
Purpose of Fund: For the department to enforce mandatory motor vehicle liability insurance laws. The FY 2017 General Appropriation Act transferred \$1,100,000 from the Motor Vehicle Liability Insurance Enforcement Fund to the Safety Enforcement and Transportation Infrastructure Fund (SETIF) to resolve a SETIF shortfall.		
Funds Expended	1,295,200	1,332,400
Year-End Fund Balance	5,543,000	7,555,600
Rental Tax and Bond Deposit Fund (DTA3737/A.R.S. § 28-371)		Non-Appropriated
Source of Revenue: Cash deposits from motor carrier and use fuel taxpayers, and portions of rent that the department collects.		
Purpose of Fund: To hold cash deposits from motor carrier and use fuel taxpayers who choose to make cash deposits instead of providing surety bonds to guarantee their fee payments. Any money remaining in a taxpayer's account would be returned to the taxpayer. To hold the county property tax portion of rent on department properties, which is forwarded to the appropriate county tax office. Also, to hold the privilege tax portion of rent on the department's commercial properties, which is forwarded to the Department of Revenue.		
Funds Expended	0	0
Year-End Fund Balance	1,661,400	0
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount (DTA2108/A.R.S. § 28-6547)		Appropriated
Source of Revenue: Fees for commercial vehicle permits collected at southern ports of entry on the border with Mexico and interest earnings.		
Purpose of Fund: To enforce vehicle safety requirements by DPS and ADOT, and maintain and construct transportation facilities within 25 miles of the Arizona-Mexico border. To improve vehicle congestion at Mexican border ports of entry, and obtain Federal Funds for Safety Enforcement and Transportation Infrastructure Fund (SETIF) purposes. Also to maintain and construct transportation facilities in the Canada to Mexico (CANAMEX) trucking and trade corridor, which came about as a result of the North American Free Trade Agreement (NAFTA) between Canada, the United States and Mexico. In addition, ADOT may provide SETIF monies to the Arizona-Mexico Commission, Arizona Department of Homeland Security, and AIDA for certain SETIF-related purposes. The FY 2017 Government Budget Reconciliation Bill (Laws 2016, Chapter 121) creates the ADOT subaccount and the DPS subaccount within the fund. A total of 55% of SETIF revenues will be deposited into the ADOT subaccount and 45% in the DPS subaccount.		
Funds Expended	1,832,600	1,897,400
Year-End Fund Balance*	284,900	(84,500)
Shared Location and Advertising Agreements Expense Fund (DTA2414/A.R.S. § 28-409)		Non-Appropriated
Source of Revenue: The fund consists of monies received from agreements with public and private entities for services located in department offices or to advertise those entities' goods and services.		
Purpose of Fund: To partially offset the department's cost of providing a location or advertising. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	4,000	10,000
Year-End Fund Balance	87,500	86,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
State Aviation Fund (DTA2005/A.R.S. § 28-8202)		Appropriated
Source of Revenue: Flight property tax, aircraft registration fees, license taxes, fuel taxes, the sale of abandoned aircraft, receipts from airports operated by the department, and interest earnings.		
Purpose of Fund: For the administration of aviation laws, the operation and maintenance of state-owned airports, and capital projects at publicly-owned and operated airports of political subdivisions, which includes Indian reservations.		
Funds Expended	1,573,500	2,103,100
Year-End Fund Balance*	6,588,900	(1,437,000)
State Highway Fund (DTA2030/A.R.S. § 28-6991)		Appropriated
Source of Revenue: Monies distributed from the Highway User Revenue Fund, certain vehicle fees which are deposited directly to the State Highway Fund, interest earnings, appropriations by the Legislature, and donations.		
Purpose of Fund: For the department's operating budget, the acquisition of right-of-way, construction and maintenance of state highways and roads, and other highway related projects. The expended funds only reflect operating expenses. <i>(Please see the Highway User Revenue Fund Distribution chart in the ADOT Capital section for non-operating expenditures.)</i>		
Funds Expended	335,181,400	361,130,800
Year-End Fund Balance	636,512,600	663,346,200
Statewide Employee Recognition Gifts/Donations Fund (DTA2449/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity, or major life event of department employees.		
Funds Expended	6,300	13,000
Year-End Fund Balance	26,600	21,100
Statewide Special Plates Fund (DTA2650/A.R.S. § 35-131)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of the special plate fees, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue special plates. Up to 10% of annual deposits may be used by ADOT to administer the fund. ADOT is to annually allocate fund monies, excluding administrative fees, through a statutorily designated entity.		
Funds Expended	2,038,800	2,597,000
Year-End Fund Balance	1,235,800	1,246,300
Transportation Department Equipment Fund (DTA2071/A.R.S. § 28-7006)		Appropriated
Source of Revenue: Equipment rental, sale at auction, insurance recoveries, donations, interest earnings, and monies appropriated by the Legislature (for purchase, repairs and maintenance).		
Purpose of Fund: For maintenance, service or repair of equipment and consumable material including administrative expenses.		
Funds Expended	16,888,200	18,726,300
Year-End Fund Balance	1,017,100	737,500
Underground Storage Tank Revolving Fund (DTA3728/A.R.S. § 28-6007)		Non-Appropriated
Source of Revenue: The fund consists of Underground Storage Tank taxes paid by persons liable for motor/aviation fuel taxes; or persons who refine, manufacture or produce compounds, blend or import diesel (liquid petroleum).		
Purpose of Fund: For department administrative expenses. The department retains only administrative costs as determined by an intergovernmental agreement between ADOT and DEQ.		
Funds Expended	0	0
Year-End Fund Balance	989,300	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Vehicle Inspection and Certificate of Title Enforcement Fund (DTA2272/A.R.S. § 28-2012)		Appropriated
Source of Revenue: Fees of \$20 and \$50 for performing more detailed level 2 and level 3 inspections of vehicle identification numbers, before issuing restored salvage titles on repaired salvage and similar vehicles.		
Purpose of Fund: To defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement and other enforcement related issues. A portion of the revenues are transferred to DPS for investigations concerning automobile theft. Laws 2016, Chapter 263 and Laws 2016, Chapter 276 modified the fund's title from the Vehicle Inspection and Title Enforcement Fund to its current title.		
Funds Expended	1,435,000	1,464,400
Year-End Fund Balance	2,181,700	3,098,300

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

State Treasurer

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	825,500
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	265,000
Equipment	40,500	45,000	45,000
OPERATING SUBTOTAL	2,831,600	3,195,600	3,159,300
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	6,548,200
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	2,559,300
SUBTOTAL - Other Appropriated Funds	4,762,200	5,379,400	5,343,100
SUBTOTAL - Appropriated Funds	5,967,300	6,584,500	6,548,200
Other Non-Appropriated Funds	4,005,400	4,088,300	4,088,300
TOTAL - ALL SOURCES	9,972,700	10,672,800	10,636,500

AGENCY DESCRIPTION — The State Treasurer is an elected Constitutional Officer. The primary responsibilities of the office are to receive and keep custody over all monies belonging to the state that are not required to be kept by another entity, to pay warrants of the Arizona Department of Administration, and to keep an account of all monies received and disbursed. The office also invests state monies and operates the Local Government Investment Pool (LGIP) for the benefit of participating units of local government.

Operating Budget

The Baseline includes \$3,159,300 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	2,559,300

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(36,300) from the State Treasurer's Operating Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. (Please see the Technical Budget Assumptions 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. § 15-2402C 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 Baseline 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 Baseline includes no additional funding for Justice of the Peace salaries.

Law Enforcement/Boating Safety Fund Grants

The Baseline 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.

County	FY 2017	FY 2018 Thru October 14th
Apache	\$ 56,100	\$ 17,200
Coconino	180,700	57,000
Gila	184,900	48,000
La Paz	346,300	93,600
Maricopa	362,800	108,200
Mohave	547,400	146,700
Navajo	64,000	17,000
Yuma	<u>188,400</u>	<u>54,500</u>
Total	\$1,930,600	\$542,200

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Additional Legislation

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, or 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 hosts 2 annual NASCAR events in addition to various other auto-racing competitions. Renovations to PIR began in February 2017 and are expected to be completed by November 2018. As of November 2017, PIR has not requested certification of its expenditures.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Border Security Trust Fund (TRA2549/A.R.S. § 41-113)		Appropriated
Source of Revenue: Public and private donations.		
Purpose of Fund: To provide funding for the construction of a physical or virtual fence along the Arizona-Mexico border.		
Funds Expended	0	0
Year-End Fund Balance	55,600	55,600
Criminal Justice Enhancement Fund (TRA3702/A.R.S. § 41-2401)		Non-Appropriated
Source of Revenue: The fund receives 11.7% of Criminal Justice Enhancement Fund (CJEF) monies. CJEF consists of a penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For distribution to counties for the training of detention officers and county jail operational enhancement.		
Funds Expended	4,005,400	4,005,400
Year-End Fund Balance	0	0
Arizona Fallen Firefighter Memorial Fund (TRA3033/A.R.S. § 41-1863)		Non-Appropriated
Source of Revenue: Private and public donations.		
Purpose of Fund: The establishment of the Arizona Fallen Firefighter Memorial in Wesley Bolin Plaza, as determined by the Arizona Fallen Firefighter Memorial Committee. Laws 2017, Chapter 21 changed the fund's name from the Arizona Fire Fighters and Emergency Paramedics Memorial Fund to its current title.		
Funds Expended	0	0
Year-End Fund Balance	300	300
Law Enforcement and Boating Safety Fund (TRA2111/A.R.S. § 5-383)		Appropriated
Source of Revenue: A portion of watercraft licensing taxes and fines for operating motorized watercraft while under the influence.		
Purpose of Fund: To provide grants to county law enforcement agencies for water and boating safety programs. The Treasurer distributes grants based on a formula determined by the Arizona Game and Fish Commission.		
Funds Expended	1,930,600	2,183,800
Year-End Fund Balance	0	0
Public Deposit Administration Fund (TRA2574/A.R.S. § 35-1212)		Non-Appropriated
Source of Revenue: Pro Rata fees assessed to participants in the Statewide Collateral Pool and interest.		
Purpose of Fund: Funds the administration of the Statewide Collateral Pool. The Statewide Collateral Pool serves as a centralized fund for collateral that banks hold against public deposits in the event of a default.		
Funds Expended	0	82,900
Year-End Fund Balance	237,200	245,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Public School Credit Enhancement Fund (TRA2675/A.R.S. § 15-2154)		Non-Appropriated
Source of Revenue: Revenues include fees paid by participating schools, repayments of monies used to make payments of principal and interest on guaranteed financings, proceeds of program funding obligations, gifts, grants, and donations. The FY 2017 Credit Enhancement Budget Reconciliation Bill (Laws 2016, Chapter 129) provided a one-time transfer of \$23,900,000 from the Access Our Best Public Schools Fund in FY 2017 to the Arizona Public School Credit Enhancement Fund.		
Purpose of Fund: To make payments of principal or interest on guaranteed financings. (See "Arizona Public School Credit Enhancement Fund" in the Summary of Funds for the School Facilities Board for information on other uses of this fund.)		
Funds Expended	0	0
Year-End Fund Balance	23,900,000	23,900,000
State Treasurer Empowerment Scholarship Account Fund (TRA2570/A.R.S. § 15-2402)		Appropriated
Source of Revenue: Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C.		
Purpose of Fund: To fund the State Treasurer's cost of administering the Empowerment Scholarship Accounts program authorized by A.R.S. § 15-2402. The Arizona Department of Education (ADE) also transfers monies to the State Treasurer each quarter for funding Empowerment Scholarship Accounts for individual students. Those monies are not displayed to avoid double counting of the General Fund (also see the "Department of Education Empowerment Scholarship Account Fund" in the Summary of Funds for ADE).		
Funds Expended	79,400	304,400
Year-End Fund Balance	0	0
State Treasurer's Management Fund (TRA3799/A.R.S. § 35-326.01)		Appropriated
Source of Revenue: A portion of management fees paid by the General Fund, state agencies, cities, towns, tribal governments, counties and political subdivisions of the state, not to exceed the amount appropriated by the Legislature.		
Purpose of Fund: To provide funding for the administrative expenses associated with managing LGIP.		
Funds Expended	195,600	295,600
Year-End Fund Balance	358,900	358,900
State Treasurer's Operating Fund (TRA3795/A.R.S. § 35-316)		Appropriated
Source of Revenue: A portion of management fee collections not to exceed 0.06% from the earnings on investment pools other than permanent endowment funds.		
Purpose of Fund: To provide funding for the operating expenses of the agency.		
Funds Expended	2,556,600	2,595,600
Year-End Fund Balance	448,900	448,900

Governor's Office on Tribal Relations

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	10,100
Travel - In State	200	1,500	1,500
Other Operating Expenditures	18,200	17,400	17,400
Equipment	1,100	0	0
AGENCY TOTAL	56,700	58,000	57,500
FUND SOURCES			
General Fund	56,700	58,000	57,500
SUBTOTAL - Appropriated Funds	56,700	58,000	57,500
Other Non-Appropriated Funds	34,000	22,900	22,900
TOTAL - ALL SOURCES	90,700	80,900	80,400

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 Baseline includes \$57,500 and 3 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(500) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Indian Town Hall Fund (IAA4014/A.R.S. § 41-545)		Non-Appropriated
Source of Revenue: Monies collected or received at Indian town halls as fees for administration.		
Purpose of Fund: To defray administrative costs related to Indian town halls.		
Funds Expended	500	0
Year-End Fund Balance	2,400	2,400
Publications Fund (IAA4013/A.R.S. § 41-543 [Repealed])		Non-Appropriated
Source of Revenue: Sale of commission publications.		
Purpose of Fund: To produce and distribute commission publications. At fiscal year end, amounts in excess of \$15,000 revert to the General Fund. Laws 2016, Chapter 150 repealed the fund and transferred the fund balance to the Arizona Indian Town Hall Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
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Statewide Donations Fund (IAA2025/A.R.S. § 35-142)		Non-Appropriated
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Source of Revenue: Monies from booth space at Indian Nations and Tribes Legislative Day. Additional funds are obtained from outside sources such as the 22 tribes and nations of Arizona, as well as private corporations.

Purpose of Fund: To pay for expenses incurred for Indian Nations and Tribes Legislative Day. The Governor's Office on Tribal Relations is required by statute to facilitate this day on the first Wednesday of each regular legislative session.

Funds Expended	33,500	22,900
Year-End Fund Balance	2,200	2,300

Arizona Board of Regents

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	520,800
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	2,352,500
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Performance Funding	5,000,000	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	6,887,200
FUND SOURCES			
General Fund	21,928,400	6,909,300	6,887,200
SUBTOTAL - Appropriated Funds	21,928,400	6,909,300	6,887,200
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	13,415,100

AGENCY DESCRIPTION — Article 11 of the Arizona Constitution creates the Arizona Board of Regents (ABOR). ABOR governs the 3 state institutions comprising the Arizona University System: Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). The board is legally, fiscally, and strategically responsible for the state universities.

Operating Budget

The Baseline includes \$2,352,500 and 25.9 FTE Positions from the General Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(22,100) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Arizona Teachers Incentive Program

The Baseline 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 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 Baseline 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 Baseline 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 Baseline 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 estimates that it will provide 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.

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FORMAT — Operating Lump Sum with Special Lines by Agency

FOOTNOTES

Standard Footnotes

ABOR Specific

Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an A CURRENT YEAR expenditure plan for review to the Joint Legislative Budget Committee. ~~The expenditure plan shall include any tuition revenue amounts that are greater than the appropriated amounts and all retained tuition and fee revenue expenditures for the current fiscal year.~~ THE 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 additional revenue expenditure plan shall INCLUDE THE AMOUNT 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 that have previously been excluded from university reported tuition and fee revenues. (Please see Tuition Revenues in Other Issues section for more information.)~~

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.

Universitywide

Other than scholarships awarded through the Arizona Financial Aid Trust, the appropriated monies may not be used for scholarships or any student newspaper.

The state General Fund appropriation may not be used for alumni association funding ~~or contracts with individuals or entities for lobbying services.~~ (Laws 2017, Chapter 315 enacted the lobbying prohibition as part of permanent law in A.R.S. § 15-1650.04)

The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research.

Any unencumbered balances remaining in the University Collections Fund on June 30, 2018 and all collections received by the university during the fiscal year, ~~when paid into the State Treasury,~~ are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of

the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. *(The FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) eliminated the requirement that the universities remit appropriated tuition revenues to the Treasurer beginning in FY 2019. Please see Tuition Revenues in Other Issues section for more information.)*

STATUTORY CHANGES

The Baseline would:

- As session law, continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees deposited into the Arizona Financial Aid Trust (AFAT). *(Please see Arizona Financial Aid Trust in Other Issues for more information.)*
- 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.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- 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 Baseline's 3-year spending plan, universitywide General Fund costs are projected to decrease by \$(2,479,900) in FY 2020 below FY 2019, and \$(465,500) in FY 2021 below FY 2020.

These estimates are based on:

- A \$(3,000,000) decrease in FY 2020 for the expiration of the annual appropriation to NAU to support a nonprofit biomedical organization.
- 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 2.16% for FY 2020 and 2.21% 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.)*

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 2018 - 2019 academic year and anticipates 730 students by the fifth year.

Resident Student & Cost Containment Reports

The FY 2018 Higher Education BRB also established A.R.S. § 15-1650.03, which requires that ABOR conduct a comprehensive study of the cost of educating a full-time resident undergraduate student by December 15, 2017, and every 5 years thereafter. In addition, ABOR must annually submit a cost-containment report for each university by July 1 of each year.

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 \$12,246,200 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	\$ 138,100
Normal Schools	296,600	756,800
A&M Colleges	445,100	983,900
School of Mines ^{2/}	499,800	1,198,100
Universities Land Fund	3,834,800	9,169,300
University Land Code	2,175,400	2,736,600
U of A Land - 1881	<u>1,659,400</u>	<u>6,432,700</u>
Total	\$ 5,160,100	\$ 12,246,200

^{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 Baseline continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2019. The Baseline 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 Baseline 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 Baseline would modify the reporting requirements that govern ABOR's annual tuition revenue report. Rather than reporting on the incremental use of only appropriated tuition, ABOR would instead account for the expenditure of *all* tuition monies using the following

categories: operating expenses, plant fund, debt service, and financial aid. ABOR would be 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. *(Please see the Footnotes section for more information.)*

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.)*

The Baseline 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 Baseline reflects the lower costs in FY 2019 compared to FY 2018. Of this

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.

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 2018 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 2018 General Appropriation Act appropriated \$15.0 million to the universities from the General Fund in FY 2018 for one-time operating expenditures or capital improvements. Of this amount, \$7.6 million was appropriated to ASU, \$3.2 million was appropriated to NAU, and \$4.2 was appropriated to UA.

Of the amounts appropriated to ASU and UA, \$1.0 million from each was restricted for use toward operating expenditures of the School of Civic and Economic Thought and Leadership and the Center for the Philosophy of Freedom, respectively. *(Please see the individual university sections for more information on the uses of these monies.)*

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

include \$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](#).

Total Spending Authority

In total, the Universities' total projected spending authority in FY 2019 is \$6.31 billion, including \$712.1 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.

Tuition Distribution

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. The latter includes financial aid, facilities (plant fund), debt service, and some of their operating budget. Total 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 2018 tuition rates on April 7, 2017.

- Since FY 2009, NAU has maintained a guaranteed tuition model for incoming freshmen. NAU increased tuition and mandatory fees by 2.7% for new undergraduate resident students.
- UA began a similar program in FY 2015. UA increased tuition and fees by 3.9% for new resident undergraduate students.
- ASU increased tuition and fees for all resident undergraduates by 1.4%. ASU's total tuition and fees

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.

Table 3

FY 2019 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total ^{3/}
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	
ABOR	\$ 6,887,200	\$ 0	\$ 0	\$ 0	\$ 6,527,900	\$ 13,415,100
ASU	322,036,700	681,632,600	3,600,000	412,303,800	1,572,986,000	2,992,559,100
NAU	109,873,700	157,431,100	0	94,302,400	339,089,200	700,696,400
UA-Main	204,472,400	410,094,700	0	226,449,200	1,118,581,200	1,959,597,500
UA-Health Sciences	<u>68,859,800</u>	<u>49,749,000</u>	<u>0</u>	<u>108,404,100</u>	<u>418,424,100</u>	<u>645,437,000</u>
Total	\$712,129,800	\$1,298,907,400	\$3,600,000	\$841,459,500	\$3,455,608,400	\$6,311,705,100

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. 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 tuition rate changes.

3/ Total universitywide funding includes gross tuition revenues.

Table 4

Use of FY 2018 Tuition/Fees by University ^{1/}

	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	<u>Total</u>
Appropriated				
Operating Budget ^{2/}	\$ 681,632,600	\$157,431,100	\$453,143,700	\$1,292,207,400
Non-Appropriated				
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	46,425,400	14,500,000	28,152,400	89,077,800
Subtotal	\$ 989,506,300	\$217,071,900	\$ 433,710,000	\$1,640,288,200
Total Gross Tuition ^{5/ 6/}	\$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.

^{6/} ABOR estimates total gross tuition revenues of \$3.0 billion in FY 2019, excluding revenue increases resulting from increased tuition rates.

Table 5

**Arizona University System
FY 2018 Undergraduate and Graduate Tuition ^{1/}**

	<u>Resident Undergraduate</u>		<u>Resident Graduate</u>		<u>Non-Resident Undergraduate</u>		<u>Non-Resident Graduate</u>	
	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>
ASU	\$10,792 ^{2/}	1.4%	\$11,918	1.4%	\$27,372 ^{3/}	3.4%	\$29,854	3.4%
NAU	\$11,059	2.7%	\$10,261	2.7%	\$24,841	2.9%	\$22,609	2.9%
UA	\$12,228	3.9%	\$12,748	2.9%	\$35,658	2.0%	\$32,698	1.0%

^{1/} Reflects tuition rates for new students at NAU and UA and all classes at ASU. NAU and UA provide a guaranteed tuition rate for each incoming class, whereas ASU does not.

^{2/} Includes temporary surcharge first levied in FY 2016 at \$320, which was reduced to \$270 in FY 2017 and is continued at that level in FY 2018. Overall tuition and fee increase of 1.4% for ASU undergraduate resident students.

^{3/} ABOR approved a rate of \$29,512 for international undergraduate students at ASU.

Table 6

FY 2017 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}

	<u>Federal</u>	<u>State</u> ^{2/}	<u>Institutional</u> ^{3/}	<u>Private/Other</u> ^{4/}	<u>Total</u>
Grants	\$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	9,321.7	0.0	191,518.8	0.0	200,840.5
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</u> <u>2016</u>	<u>Spring</u> <u>2017</u>	<u>Fall</u> <u>2017</u>	<u>Fall 2016</u> <u>To Fall 2017</u>	<u>Fall 2017</u> <u>Residents</u>
ASU-Tempe	61,250	59,844	63,342	3.4%	33,823
ASU-DPC	17,083	17,114	18,080	5.8%	10,350
ASU-East	7,052	6,782	7,384	4.7%	3,945
ASU-West	8,521	8,498	9,044	6.1%	4,724
ASU Subtotal	93,906	92,238	97,850	4.2%	52,842
NAU	28,568	27,479	29,289	2.5%	19,687
UA-Main	38,690	37,828	39,425	1.9%	23,956
UA-Health Sciences	3,674	3,654	3,742	1.9%	2,862
UA Subtotal	42,364	41,482	43,167	1.9%	26,818
Total	164,838	161,199	170,306	3.3%	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).

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Arizona Health Education Center Program Fund (BRA2/A.R.S. § 5-572)		Non-Appropriated
Source of Revenue: Lottery proceeds.		
Purpose of Fund: To provide funding for the 5 Arizona Area Health Education Centers, which work to improve healthcare access for rural and underserved communities. These funds are passed through to the universities, and therefore expenditures are not displayed to avoid double counting. Pass-through funds totaled \$4,880,000 in FY 2017 and are expected to be \$4,941,800 in FY 2018 and \$5,013,600 in FY 2019.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal Funds (BRA2000/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Grants from the United States Department of Education.		
Purpose of Fund: To support pre-service, retraining, and in-service educational programs improving the instructional and management skills of K-12 and vocational school teachers and administrators, with an emphasis on core subjects.		
Funds Expended	857,200	360,200
Year-End Fund Balance	336,100	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Regents Local Fund (BRA1/A.R.S. § 15-1626)		Non-Appropriated
Source of Revenue: Contributions of retained tuition from the 3 universities.		
Purpose of Fund: To supplement the ABOR operating budget.		
Funds Expended	3,898,000	4,561,300
Year-End Fund Balance	2,396,100	1,630,500
Technology and Research Initiative Fund (BRA2472/A.R.S. § 15-1648)		Non-Appropriated
Source of Revenue: A portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute. Total receipts were \$72,397,900 in FY 2017 and are estimated to be \$75,491,000 in FY 2018 and \$78,208,700 in FY 2019.		
Purpose of Fund: To provide grants for university technology and research initiatives, with preference given to federal or private partnerships, as well as to programs for non-traditional students; also, for up to 20% of fund monies, to support capital projects, including debt service, relating to technology and research. The displayed expenditures represent only that portion of tax receipts utilized by ABOR. The board transfers all other receipts to university Restricted Funds, which reflect those monies.		
Funds Expended	3,434,900	3,606,100
Year-End Fund Balance	1,606,100	0
Trust Land Fund (BRA3131/3132/3134/3136/A.R.S. § 15-1662)		Non-Appropriated
Source of Revenue: Monies derived from the lease, sale, or other disposition of lands granted to the state by the United States for the use and benefit of the universities. Land funds are allocated for Agricultural and Mechanical Colleges, Military Institutes, Universities, and Normal Schools, respectively.		
Purpose of Fund: To operate agricultural and mechanical colleges, to support university Reserve Officers' Training Corps programs, to match private funds attracting distinguished faculty, and to operate teacher training programs, respectively. These funds are passed through to the universities, and therefore expenditures are not displayed to avoid double counting.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Arizona State University

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7,811.8	8,123.1	8,123.1
Personal Services	465,130,600	478,891,000	478,891,000
Employee Related Expenditures	141,946,100	144,986,500	142,478,600
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	120,396,300	126,122,400	126,122,400
Equipment	23,265,600	20,394,900	20,394,900
OPERATING SUBTOTAL	805,744,500	822,701,700	820,193,800
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	11,190,300	13,481,000	13,478,700
2017 Capital Infrastructure Funding	0	0	11,927,400
Arizona Financial Aid Trust	0	5,985,800	5,985,800
Biomedical Informatics	3,067,700	3,746,100	3,746,100
Downtown Phoenix Campus	144,968,500	145,337,500	145,337,500
One-Time Funding	7,000,000	6,639,500	0
School of Civic and Economic Thought and Leadership	727,400	4,000,000	3,000,000
TRIF - Lease Purchase Payment	3,600,000	3,600,000	3,600,000
AGENCY TOTAL	976,298,400	1,005,491,600	1,007,269,300
FUND SOURCES			
General Fund	305,397,600	320,259,000	322,036,700
<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	681,632,600
SUBTOTAL - Other Appropriated Funds	670,900,800	685,232,600	685,232,600
SUBTOTAL - Appropriated Funds	976,298,400	1,005,491,600	1,007,269,300
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	2,992,559,100

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.

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 Baseline includes \$820,193,800 and 6,952.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$272,029,400
University Collections Fund	548,164,400

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(2,507,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions 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 Baseline 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 Baseline 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 would 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 Baseline 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 Baseline 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 would 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 Baseline 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 Baseline includes \$3,746,100 and 24.9 FTE Positions in FY 2019 for the Biomedical Informatics Department. These amounts consist of:

General Fund	1,869,000
University Collections Fund	1,877,100

These amounts are unchanged from FY 2018.

This multidisciplinary department incorporates computer science, biology, and engineering to organize and analyze medical data. In 2014, Biomedical Informatics moved from the DPC to Mayo Clinic's hospital in Phoenix.

Downtown Phoenix Campus

The Baseline includes \$145,337,500 and 1,135 FTE Positions in FY 2019 for programs headquartered at the Downtown Phoenix Campus (DPC). These amounts consist of:

General Fund	13,746,400
University Collections Fund	131,591,100

These amounts are unchanged from FY 2018.

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.

One-Time Funding

The Baseline includes no funding in FY 2019 from the General Fund for the One-Time Funding line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(6,639,500) from the General Fund in FY 2019 for the elimination of one-time funding for capital improvements or operating expenditures.

The FY 2018 budget process designated \$7,639,500 as one-time funding. Of this amount, \$1,000,000 was restricted for operating expenditures of the School of Civic and Economic Thought and Leadership and therefore were displayed in the funding for that line item. *(Please see the School of Civic and Economic Thought and Leadership narrative below for more information.)*

Excluding the funds used for the School of Civic and Economic Thought and Leadership, ASU used its one-time funding for faculty salaries and benefits.

School of Civic and Economic Thought and Leadership

The Baseline includes \$3,000,000 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:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2019 for one-time funding for operating expenditures. The school budgeted the one-time monies to support its public affairs series and speakers, funded internships, an international student learning trip, and original copies of significant historical works. *(Please see the One-Time Funding line item narrative above for more information.)*

SCETL began matriculating students in fall 2017.

TRIF Lease-Purchase Payment

The Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for universitywide footnotes.)

The appropriated amount for the School of Civic and Economic Thought and Leadership line item shall be used to operate a single stand-alone academic entity within Arizona State University. The appropriated amount may not supplant any existing state funding or private or external donations to the existing centers or to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. The school shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Education Committee and the Director of the Joint Legislative Budget Committee on or before October 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.

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.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning the one-time appropriation and report on use of the funding for operating or capital expenditures.

Other Issues

This section includes information on the following topics:

- Summary
- Long-Term Budget Impacts
- Additional Legislation - ASU Budget Consolidation
- University Collections and FTE Positions Adjustments

Summary

ASU's FY 2019 General Fund Baseline is \$322,036,700. Of this amount:

- \$296,630,600 would be included in ASU's individual section of the FY 2019 General Appropriation Act.
- \$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.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, ASU's General Fund costs are projected to increase by \$216,100 in FY 2020 above FY 2019, and \$245,700 in FY 2021 above FY 2010.

These estimates are based on:

- A \$(22,400) decrease in FY 2020 and a \$(2,400) 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 \$238,500 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 2.16% for FY 2020 and 2.21% 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 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	195,054,300	187,066,800
Year-End Fund Balance	10,117,600	17,968,700

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Capital Infrastructure Fund - ASU (UNI3001/A.R.S. § 15-1671)		Non-Appropriated
Source of Revenue: General Fund appropriations and university local funds. ASU will receive a General Fund appropriation of \$11,927,400 starting in FY 2019, and this amount will annually increase by 2% or the rate of inflation, whichever is less, through FY 2043. The university must provide a 1:1 match of its own funds for any General Fund appropriations which are used to pay debt service.		
Purpose of Fund: To pay the cost of, or debt service on debt financing for, university capital projects. Systemwide, projects funded by the universities' capital infrastructure funds may not cumulatively exceed \$1.0 billion in principal. <i>(Please see the Capital Outlay ABOR Building System narrative for more information).</i> Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into subaccounts for specific purposes. Indirect Cost Recovery, a Designated Fund subaccount, is presented separately.		
Funds Expended	914,677,200	1,134,044,000
Year-End Fund Balance	442,218,400	423,913,600
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on Invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	1,655,700	700,000
Year-End Fund Balance	129,697,700	132,197,700
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	353,810,600	351,670,800
Year-End Fund Balance	0	0
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Federally-sponsored research programs.		
Purpose of Fund: To assist and promote federally-sponsored research.		
Funds Expended	58,526,000	60,633,000
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally-sponsored research programs.		
Purpose of Fund: To assist and promote non-federally-sponsored research.		
Funds Expended	8,825,900	10,804,600
Year-End Fund Balance	139,500	455,900
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
Purpose of Fund: To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	637,800	0
Year-End Fund Balance	13,505,000	13,505,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	150,400,800	205,827,300
Year-End Fund Balance	67,777,100	48,521,200
Technology and Research Initiative Fund (UNI2472/A.R.S. § 15-1648)		Appropriated
Source of Revenue: Automatic appropriations of a portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute.		
Purpose of Fund: To make lease-purchase payments on certificates of participation used for technology and research capital projects.		
Funds Expended	3,600,000	3,600,000
Year-End Fund Balance	0	0
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
Source of Revenue: University system revenues.		
Purpose of Fund: To pay annual debt service payments for the \$800,000,000 university Lottery bonding package. Lottery bond debt service is paid with no more than 80% Lottery revenues and at least 20% state university system revenues. (<i>Please see the Capital Outlay ABOR Building System narrative for more information.</i>)		
Funds Expended	11,925,800	11,926,700
Year-End Fund Balance	0	0
University Collections Fund (ASA1411/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of summer session and university trust land earnings.		
Purpose of Fund: To operate the university.		
Funds Expended	667,300,800	681,632,600
Year-End Fund Balance	0	0

Northern Arizona University

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,260.7	2,316.5	2,316.5
Personal Services	154,987,700	158,286,800	158,286,800
Employee Related Expenditures	48,978,100	49,260,700	49,205,700
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	247,203,800
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	4,246,800	5,896,500	5,896,200
2017 Capital Infrastructure Funding	0	0	4,520,900
Arizona Financial Aid Trust	0	1,326,000	1,326,000
Biomedical Research	3,000,000	3,000,000	3,000,000
NAU - Yuma	3,075,800	3,069,200	3,067,300
One-Time Funding	4,000,000	3,202,800	0
Teacher Training	2,424,400	2,290,600	2,290,600
AGENCY TOTAL	252,510,300	266,043,900	267,304,800
FUND SOURCES			
General Fund	105,227,000	108,612,800	109,873,700
<u>Other Appropriated Funds</u>			
University Collections Fund	147,283,300	157,431,100	157,431,100
SUBTOTAL - Other Appropriated Funds	147,283,300	157,431,100	157,431,100
SUBTOTAL - Appropriated Funds	252,510,300	266,043,900	267,304,800
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	700,696,400

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.

Operating Budget

The Baseline includes \$247,203,800 and 2,279.6 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	89,772,700
University Collections Fund	157,431,100

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(55,000) from the General Fund in FY 2019 for the removal of a one-time FY

2018 health insurance adjustment. (Please see the *Technical Budget Assumptions* 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 Baseline 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:

Refinance Adjustment

The Baseline 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 would 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 Baseline 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 Baseline 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 would 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 Baseline 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 Baseline 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 would 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.)*

NAU - Yuma

The Baseline includes \$3,067,300 and 29.4 FTE Positions from the General Fund in FY 2019 for NAU-Yuma. FY 2019 adjustments are as follows.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

One-Time Funding

The Baseline includes no funding in FY 2019 for the One-Time Funding line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(3,202,800) from the General Fund in FY 2019 for the elimination of one-time funding for capital improvements or operating expenditures. This funding was designated as one-time in the FY 2018 budget process.

As reviewed at the September 2017 Joint Committee on Capital Review meeting, NAU has reported that it is using its one-time funds in FY 2018 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 Baseline includes \$2,290,600 and 7.5 FTE Positions from the General Fund in FY 2019 for Teacher Training. These amounts are unchanged from FY 2018.

The Teacher Training program serves to increase the number of teachers serving as mentors under the Teacher Training ("Master Teacher") program. The Arizona K-12 Center is affiliated with NAU and is located in downtown Phoenix.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for universitywide footnotes.)

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.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning the one-time appropriation and report on use of the funding for operating or capital expenditures.

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 Baseline is \$109,873,700. Of this amount:

- \$96,456,600 would be included in NAU's individual section of the FY 2019 General Appropriation Act.
- \$5,896,200 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$3,000,000 is appropriated in Section 132 of the FY 2015 General Appropriation Act for Biomedical Research.

- \$4,520,900 is appropriated in A.R.S. § 15-1671 for new university research facilities, building renewal, or other capital construction projects.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, NAU's General Fund costs are projected to decrease by \$(2,906,300) in FY 2020 below FY 2019 and by \$(927,800) in FY 2021 below 2020.

These estimates are based on:

- 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 2.16% for FY 2020 and 2.21% 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 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	81,925,500	97,382,300
Year-End Fund Balance	29,682,300	31,550,900
Capital Infrastructure Fund - NAU (UNI3002/A.R.S. § 15-1671)		Non-Appropriated
Source of Revenue: General Fund appropriations and university local funds. NAU will receive a General Fund appropriation of \$4,520,900 starting in FY 2019, and this amount will annually increase by 2% or the rate of inflation, whichever is less, through FY 2043. The university must provide a 1:1 match of its own funds for any General Fund appropriations which are used to pay debt service.		
Purpose of Fund: To pay the cost of, or debt service on debt financing for, university capital projects. Systemwide, projects funded by the universities' capital infrastructure funds may not cumulatively exceed \$1.0 billion in principal. <i>(Please see the Capital Outlay ABOR Building System narrative for more information.)</i> Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into subaccounts for specific purposes. Indirect Cost Recovery, a Designated Fund subaccount, is presented separately.		
Funds Expended	164,879,500	195,180,300
Year-End Fund Balance	86,079,500	74,884,600
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	30,338,700	33,238,700
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	83,363,700	84,807,100
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Federally-sponsored research programs.		
<i>Purpose of Fund:</i> To assist and promote federally-sponsored research.		
Funds Expended	7,517,500	7,760,700
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Non-federally-sponsored research programs.		
<i>Purpose of Fund:</i> To assist and promote non-federally-sponsored research.		
Funds Expended	2,629,300	2,188,000
Year-End Fund Balance	8,536,000	7,304,900
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
<i>Purpose of Fund:</i> To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	174,900	185,000
Year-End Fund Balance	7,488,100	7,603,100
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds.</i>) as well as a portion of financial aid trust fees assessed to students.		
<i>Purpose of Fund:</i> To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	24,973,600	25,468,600
Year-End Fund Balance	13,323,300	13,323,300
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
<i>Source of Revenue:</i> University system revenues.		
<i>Purpose of Fund:</i> To pay annual debt service payments for the \$800,000,000 university Lottery bonding package. Lottery bond debt service is paid with no more than 80% Lottery revenues and at least 20% state university system revenues. (<i>Please see the Capital Outlay ABOR Building System narrative for more information.</i>)		
Funds Expended	11,082,500	11,077,200
Year-End Fund Balance	0	0
University Collections Fund (NAA1421/A.R.S. § 15-1626)		Appropriated
<i>Source of Revenue:</i> Tuition and registration fees, as well as a portion of summer session and university trust land earnings.		
<i>Purpose of Fund:</i> To operate the university.		
Funds Expended	147,283,300	157,431,100
Year-End Fund Balance	0	0

University of Arizona - Main Campus

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6,009.5	6,064.5	6,064.5
Personal Services	290,086,500	331,290,700	331,290,700
Employee Related Expenditures	108,585,900	123,312,300	121,788,100
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	75,326,100	58,583,000	58,583,000
OPERATING SUBTOTAL	482,381,700	516,822,900	515,298,700
SPECIAL LINE ITEMS			
2003 Research Infrastructure Lease-Purchase Payment	13,978,400	14,249,300	14,251,000
2017 Capital Infrastructure Funding	0	0	10,551,700
Agriculture	38,062,000	42,376,000	42,376,000
Arizona Cooperative Extension	15,287,400	16,358,100	16,358,100
Arizona Financial Aid Trust	0	2,729,400	2,729,400
Arizona Geological Survey	0	941,000	941,000
Center for Philosophy of Freedom	779,800	3,500,000	2,500,000
Mining, Mineral and Natural Resources Educational Museum	428,300	428,300	428,300
One-Time Funding	8,000,000	3,157,700	0
Sierra Vista Campus	8,769,600	9,132,900	9,132,900
AGENCY TOTAL	567,687,200	609,695,600	614,567,100
FUND SOURCES			
General Fund	197,059,600	199,600,900	204,472,400
<u>Other Appropriated Funds</u>			
University Collections Fund	370,627,600	410,094,700	410,094,700
SUBTOTAL - Other Appropriated Funds	370,627,600	410,094,700	410,094,700
SUBTOTAL - Appropriated Funds	567,687,200	609,695,600	614,567,100
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	1,959,597,500

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

The Baseline includes \$515,298,700 and 4,847 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	127,471,600
University Collections Fund	387,827,100

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(1,524,200) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions 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 Baseline 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 Baseline 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 would not appear in the FY 2018 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, UA has issued \$201,300,000 in COPs.

(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)

2017 Capital Infrastructure Funding

The Baseline 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 Baseline 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 would 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 Baseline includes \$42,376,000 and 743.8 FTE Positions in FY 2019 for the Agriculture Programs. These amounts consist of:

General Fund	28,397,500
University Collections Fund	13,978,500

These amounts are unchanged from FY 2018.

This line item supports agricultural academic programs in Animal Systems; Environment and Natural Resources; Family, Youth, and Community; Human Nutrition, Food Safety and Health; Marketing, Trade, and Economics; and Plant Systems.

Arizona Cooperative Extension

The Baseline includes \$16,358,100 and 354.8 FTE Positions in FY 2019 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,458,100
University Collection Fund	1,900,000

These amounts are unchanged from FY 2018.

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 Baseline 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 Baseline includes \$941,000 from the General Fund in FY 2019 for the Arizona Geological Survey. This amount is unchanged from FY 2018.

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 Baseline includes \$2,500,000 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:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2019 for one-time funding for operating expenditures. *(Please see the One-Time Funding line item narrative below for more information.)*

This line item supports the CPF, which is within the UA Department of Political Economy and Moral Science. The CPF's functions include published research, undergraduate education, graduate education, and community outreach.

Mining, Mineral and Natural Resources Educational Museum

The Baseline includes \$428,300 and 1 FTE Position from the General Fund in FY 2019 for the Mining, Mineral, and Natural Resources Educational Museum. These amounts are unchanged from FY 2018.

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. Of the total FY 2018 appropriation for the Museum, \$360,800 is available for renovations and the remaining \$67,500 funds a curator position.

One-Time Funding

The Baseline includes no funding in FY 2019 from the General Fund for the One-Time Funding line item. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(3,157,700) from the General Fund in FY 2019 for the elimination of one-time funding for capital improvements or operating expenditures.

The FY 2018 budget process designated \$4,157,700 as one-time funding. Of this amount, \$1,000,000 was restricted for operating expenditures of the Center for the Philosophy of Freedom and therefore were displayed in the funding for that line item. *(Please see the Center for the Philosophy of Freedom narrative above for more information.)*

Excluding the funds used for the Center for the Philosophy of Freedom, UA used its one-time funding to upgrade its financial system, update its main website, and to make cyber security upgrades.

Sierra Vista Campus

The Baseline includes \$9,132,900 and 80.5 FTE Positions in FY 2019 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,743,800
University Collections Fund	6,389,100

These amounts are unchanged from FY 2018.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for universitywide footnotes.)

The appropriated amount for the Center for the Philosophy of Freedom line item may not supplant any existing state funding or private or external donations to the Center or the Philosophy Department of the University of Arizona. The appropriated monies and all private and external donations to the Center shall be used only for the direct operation of the Center and may not be used for indirect costs of the university. The Center shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Education Committee and the Director of the Joint Legislative Budget Committee on or before October 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.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning the one-time appropriation and report on use of the funding for operating or capital expenditures.

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 Baseline is \$204,472,400. Of this amount:

- \$179,669,700 would be included in UA - Main's individual section of the FY 2019 General Appropriation Act.
- \$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.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, UA - Main's General Fund costs are projected to increase by \$210,200 in FY 2020 above FY 2019, and \$216,600 in FY 2021 above FY 2020.

These estimates are based on:

- 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 2.16% for FY 2020 and 2.21% 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 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Sales revenues of substantially self-supporting university services.		
<i>Purpose of Fund:</i> To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	288,057,900	281,549,100
Year-End Fund Balance	32,413,200	31,677,700
Capital Infrastructure Fund - UA (UNI3003/A.R.S. § 15-1671)		Non-Appropriated
<i>Source of Revenue:</i> General Fund appropriations and university local funds. UA will receive a General Fund appropriation of \$10,551,700 starting in FY 2019, and this amount will annually increase by 2% or the rate of inflation, whichever is less, through FY 2043. The university must provide a 1:1 match of its own funds for any General Fund appropriations which are used to pay debt service.		
<i>Purpose of Fund:</i> To pay the cost of, or debt service on debt financing for, university capital projects. Systemwide, projects funded by the universities' capital infrastructure funds may not cumulatively exceed \$1.0 billion in principal. <i>(Please see the Capital Outlay ABOR Building System narrative for more information.)</i> Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants.		
<i>Purpose of Fund:</i> To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into subaccounts for specific purposes. Indirect Cost Recovery, a Designated Fund subaccount, is presented separately.		
Funds Expended	531,117,400	583,151,500
Year-End Fund Balance	251,411,800	273,374,800
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
<i>Purpose of Fund:</i> To support endowment operations and compensate designated beneficiaries.		
Funds Expended	1,797,400	1,851,400
Year-End Fund Balance	160,011,700	162,960,700
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants and contracts.		
<i>Purpose of Fund:</i> To support specific operating and research purposes as identified by the federal government.		
Funds Expended	165,713,300	170,426,700
Year-End Fund Balance	38,243,400	66,982,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Federally-sponsored research programs.		
Purpose of Fund: To assist and promote federal-sponsored research.		
Funds Expended	45,699,500	47,070,400
Year-End Fund Balance	0	0
Geological Survey Fund (UNI3030/A.R.S. § 27-107)		Non-Appropriated
Source of Revenue: Indirect cost recovery funds, and other state and local grants, fees, contracts, agreements, MOUs and other university funds. The FY 2017 Agency Consolidation Budget Reconciliation Bill established this fund and placed the Geological Survey under the University of Arizona.		
Purpose of Fund: To Investigate and describe Arizona's geologic setting and to finance map publication and production expenses.		
Funds Expended	684,800	337,000
Year-End Fund Balance	584,200	400,200
Geological Survey Fund - Federal Grants (UNI3031/A.R.S. § 27-107)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To carry out federal grants and contracts awarded to the Arizona Geological Survey.		
Funds Expended	1,006,600	1,294,300
Year-End Fund Balance	0	0
Geological Survey Fund - Mining, Mineral and Natural Resources Educational Museum Account (UNI9999/A.R.S. § 27-107)		Non-Appropriated
Source of Revenue: Ongoing revenues from the Arizona Centennial Special Fund established by A.R.S. § 28-2448 are deposited in this account of the Geological Survey Fund. Donations or other financial contributions can be deposited into this account.		
Purpose of Fund: Monies in this account are to be used exclusively for the restoration, maintenance, and operations of the Mining, Mineral, and Natural Resources Educational Museum. The FY 2017 Agency Consolidation Budget Reconciliation Bill established this account and transferred all unexpended and unencumbered monies in the Arizona Centennial Special Plate Fund to it.		
Funds Expended	90,800	39,900
Year-End Fund Balance	425,400	545,500
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally-sponsored research programs.		
Purpose of Fund: To assist and promote non-federally-sponsored research.		
Funds Expended	11,110,300	11,443,600
Year-End Fund Balance	0	0
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
Purpose of Fund: To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	219,100	225,700
Year-End Fund Balance	23,750,800	24,082,700
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (please see the ABOR Summary of Funds,) as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	171,024,700	176,179,700
Year-End Fund Balance	52,197,300	61,430,000

SUMMARY OF FUNDS**FY 2017
Actual****FY 2018
Estimate**

University Capital Improvement Lease-to-Own and Bond Fund
(BRA3042/A.R.S. § 15-1682.03)**Non-Appropriated****Source of Revenue:** University system revenues.**Purpose of Fund:** To pay annual debt service payments for the \$800,000,000 university Lottery bonding package. Lottery bond debt service is paid with no more than 80% Lottery revenues and at least 20% state university system revenues. *(Please see the Capital Outlay ABOR Building System narrative for more information).***Funds Expended** 26,900,400 26,890,800
Year-End Fund Balance 0 0**University Collections Fund (UAA1402/A.R.S. § 15-1626)****Appropriated****Source of Revenue:** Tuition and registration fees, as well as a portion of summer session and university trust land earnings.**Purpose of Fund:** To operate the university.**Funds Expended** 370,627,600 410,094,700
Year-End Fund Balance 0 0

University of Arizona - Health Sciences Center

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,157.3	1,176.3	1,176.3
Personal Services	51,269,000	52,547,600	52,547,600
Employee Related Expenditures	18,218,600	18,119,100	17,541,200
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	75,093,100
SPECIAL LINE ITEMS			
Clinical Rural Rotation	361,100	353,400	353,400
Clinical Teaching Support	8,587,000	8,587,000	8,587,000
Liver Research Institute	439,000	440,100	440,100
Phoenix Medical Campus	34,392,700	32,466,200	32,466,200
Telemedicine Network	1,669,000	1,669,000	1,669,000
AGENCY TOTAL	119,784,600	119,186,700	118,608,800
FUND SOURCES			
General Fund	68,859,800	69,437,700	68,859,800
<u>Other Appropriated Funds</u>			
University Collections Fund	50,924,800	49,749,000	49,749,000
SUBTOTAL - Other Appropriated Funds	50,924,800	49,749,000	49,749,000
SUBTOTAL - Appropriated Funds	119,784,600	119,186,700	118,608,800
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	645,437,000

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 Baseline includes \$75,093,100 and 740.1 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$34,554,100
University Collections Fund	40,539,000

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(577,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions 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 Baseline includes \$353,400 and 6.2 FTE Positions from the General Fund in FY 2019 for the Clinical Rural Rotation program. These amounts are unchanged from FY 2018.

This line item funds the Rural Health Professions Program, which enables nurse practitioner, medical, and pharmacy students to plan and complete clinical practice rotations

in rural and medically under-served sites throughout the state.

Clinical Teaching Support

The Baseline includes \$8,587,000 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 Baseline includes \$440,100 and 6.6 FTE Positions from the General Fund in FY 2019 for the Liver Research Institute. These amounts are unchanged from FY 2018.

The Liver Research Institute conducts clinical studies on all liver diseases, focusing on chemical and natural agents that may offer a cure for such ailments. The line item also supports a research development program that actively pursues outside grants and donations.

Phoenix Medical Campus

The Baseline includes \$32,466,200 and 193.9 FTE Positions in FY 2019 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,256,200
University Collections Fund	9,210,000

These amounts are unchanged from FY 2018.

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 Baseline includes \$1,669,000 and 15.3 FTE Positions from the General Fund in FY 2019 for the Telemedicine Network. These amounts are unchanged from FY 2018.

Telemedicine is the use of computers, video imaging, broadband Internet, and other telecommunication technologies to diagnose and treat patients in rural communities.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for universitywide footnotes.)

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 2018. 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 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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	8,902,500	10,290,100
Year-End Fund Balance	233,100	720,500
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into subaccounts for specific purposes. Indirect Cost Recovery, a Designated Fund subaccount, is presented separately.		
Funds Expended	285,698,900	292,603,900
Year-End Fund Balance	180,226,200	175,424,600
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	21,000,000	21,630,000
Year-End Fund Balance	162,569,400	165,816,500
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	75,612,000	77,880,200
Year-End Fund Balance	28,152,700	63,633,700
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Federally-sponsored research programs.		
Purpose of Fund: To assist and promote federally-sponsored research.		
Funds Expended	26,075,900	26,858,100
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally-sponsored research programs.		
Purpose of Fund: To assist and promote non-federally-sponsored research.		
Funds Expended	4,293,300	4,422,100
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	73,192,800	75,328,100
Year-End Fund Balance	94,256,500	110,997,700
University Collections Fund (UAA1403/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings.		
Purpose of Fund: To operate the university.		
Funds Expended	50,924,800	49,749,000
Year-End Fund Balance	0	0

Department of Veterans' Services

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	512.3	512.3	496.3
Personal Services	1,396,800	1,026,900	1,026,900
Employee Related Expenditures	484,900	407,600	385,200
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	2,308,800
SPECIAL LINE ITEMS			
Arizona State Veterans' Cemeteries	919,100	935,200	924,200
Arizona State Veterans' Homes	29,787,900	35,492,700	35,147,600
Veterans' Benefit Counseling	2,685,700	2,849,400	2,821,100
AGENCY TOTAL	35,979,000	41,608,500	41,201,700
FUND SOURCES			
General Fund	5,883,500	6,115,800	6,054,100
<u>Other Appropriated Funds</u>			
State Home for Veterans' Trust Fund	29,787,900	35,492,700	35,147,600
State Veterans' Conservatorship Fund	307,600	0	0
SUBTOTAL - Other Appropriated Funds	30,095,500	35,492,700	35,147,600
SUBTOTAL - Appropriated Funds	35,979,000	41,608,500	41,201,700
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	46,897,100

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, acts as a guardian or conservator for incapacitated veterans or their families, and operates 3 veterans' memorial cemeteries in Sierra Vista, Marana, and Flagstaff.

Operating Budget

The Baseline includes \$2,308,800 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 Baseline 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.

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(22,400) from the General Fund in FY 2019 for the removal of a one-time FY

2018 health insurance adjustment. (Please see the *Technical Budget Assumptions Section*.)

Arizona State Veterans' Cemeteries

The Baseline includes \$924,200 and 12.5 FTE Positions from the General Fund in FY 2019 for the Arizona State Veterans' Cemeteries. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(11,000) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

Monies in this line item are used to partially offset the operating and maintenance costs for the 3 veteran

cemeteries in the state. The department also receives internment fees from the federal government, which are deposited into the non-appropriated Arizona State Veterans' Cemetery Trust Fund.

The federal government typically pays most of the construction cost, but the state is responsible for the ongoing operational cost. The Marana cemetery opened in March 2016 and will be completed in FY 2018. The Flagstaff cemetery opened in June 2016 and was completed in FY 2017.

Arizona State Veterans' Homes

The Baseline includes \$35,147,600 and 380 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:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(345,100) from the State Home for Veterans' Trust Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

The monies in this line item are used for expenses related to the Arizona State Veterans' Homes in Phoenix and Tucson. Monies in this line item are from fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.

Veterans' Benefit Counseling

The Baseline includes \$2,821,100 and 57 FTE Positions from the General Fund in FY 2019 for Veterans' Benefit Counseling. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(28,300) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Status of Veterans' Home Construction

The FY 2015 budget appropriated \$9.2 million in non-lapsing General Fund monies for the state's share of the construction and establishment of a veterans' home facility in Yuma. The FY 2017 budget included \$10.0 million from the General Fund for the construction of a similar home in Flagstaff. The amount appropriated reflects 35% of the estimated cost of each home; the federal government will pay the other 65%. The department has applied for funding from the federal government to pay the other 65% but has not yet received these monies for either home.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Funds (VSA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: U.S. Department of Veterans' Affairs and Department of Defense Grants.		
Purpose of Fund: To supervise and qualify educational and training programs which receive Federal Government Issued (GI) Bill monies and to provide assistance for military personnel transitioning to a career as a public school teacher.		
Funds Expended	1,541,900	2,159,300
Year-End Fund Balance	560,400	310,400

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Military Family Relief Fund (VSA2339/A.R.S. § 41-608.04)		Non-Appropriated
Source of Revenue: Donations, bequests, or other contributions from public or private sources. This fund received a one-time General Fund appropriation of \$100,000 in FY 2008. This fund was only established through December 31, 2018; any funds remaining unencumbered as of that date are transferred to the Veterans' Donation Fund.		
Purpose of Fund: To provide financial assistance to family members of deceased or wounded veterans who became deceased, wounded, injured, or became seriously ill after September 11, 2001. Service members must have been deployed from an Arizona military base, claimed this state as the service member's home of record, or were a member of the Arizona National Guard at the time of deployment.		
Funds Expended	881,300	1,017,900
Year-End Fund Balance	6,005,700	6,027,800
Post-9/11 Veteran Education Relief Fund (VSA2645/A.R.S. § 41-612)		Non-Appropriated
Source of Revenue: Private donations, grants, and bequests.		
Purpose of Fund: To provide tuition assistance to qualifying military veterans for universities under the jurisdiction of Arizona Board of Regents and a veteran supportive campus as defined in A.R.S. § 41-609.		
Funds Expended	0	0
Year-End Fund Balance	0	0
State Home for Veterans' Trust Fund (VSA2355/A.R.S. § 41-608.01)		Appropriated
Source of Revenue: Charges for services, fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.		
Purpose of Fund: To operate and maintain state-operated nursing homes for Arizona veterans.		
Funds Expended	29,787,900	35,492,700
Year-End Fund Balance	13,184,400	14,096,200
Statewide Employee Recognition Gifts (VSA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Donations, gifts, or contributions from public or private sources.		
Purpose of Fund: For the conduct of employee recognition programs.		
Funds Expended	1,200	2,000
Year-End Fund Balance	7,400	6,900
Veterans' Cemetery Fund (VSA2481/A.R.S. § 41-608.02)		Non-Appropriated
Source of Revenue: Legislative appropriations and federal grants for the construction of veterans' cemeteries. Construction monies for the Flagstaff and Marana cemeteries will be spent from FY 2014 through FY 2018. The Flagstaff cemetery was completed in FY 2017 costing \$6,033,000 and the Marana cemetery will be completed in FY 2018 at an estimated cost of \$8,313,200.		
Purpose of Fund: To acquire property for and to establish state veterans' cemeteries.		
Funds Expended	231,500	367,300
Year-End Fund Balance	41,800	20,800
Arizona State Veterans' Cemetery Trust Fund (VSA2499/A.R.S. § 41-608.03)		Non-Appropriated
Source of Revenue: Monies, grants, gifts, and contributions from any public or private source.		
Purpose of Fund: To manage and maintain 3 Arizona veterans' cemeteries located in Sierra Vista, Marana, and Flagstaff.		
Funds Expended	247,500	267,300
Year-End Fund Balance	856,500	1,241,500
State Veterans' Conservatorship Fund (VSA2077/A.R.S. § 14-5414.01)		Appropriated
Source of Revenue: Fees collected from veterans, or a veteran's surviving spouse, or minor child, or the incapacitated spouse of a protected veteran, for whom the agency serves as a conservator.		
Purpose of Fund: To operate the Fiduciary Division of the Department of Veterans' Services. The Department eliminated this division in FY 2018 and transferred all cases to other non-state entities.		
Funds Expended	307,600	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Veterans' Donations Fund (VSA2441/A.R.S. § 41-608)		Non-Appropriated
Source of Revenue: Donations from private individuals, corporations and organizations. Donations are made by designating a portion of one's tax refund, purchasing a license plate, or other means. Sales from the Veterans, Freedom, Gold Star, Women Veteran, and Military Scholarship license plates go into this fund. Of the \$25 license plate fee, \$8 is for administrative costs deposited to the State Highway Fund and \$17 is deposited into the Veterans' Donation Fund.		
Purpose of Fund: To benefit veterans within the state of Arizona. Separate subaccounts of this fund are used for 1) the construction and maintenance of the Enduring Freedom Memorial, 2) grants to benefit women veterans in Arizona including providing shelter to homeless women veterans and 3) higher education scholarships for veterans and their dependents.		
Funds Expended	2,219,600	2,151,300
Year-End Fund Balance	3,482,900	3,494,600
Veterans' Income Tax Settlement Fund (VSA1601/Laws 2016, Chapter 125)		Non-Appropriated
Source of Revenue: Appropriation of \$2,000,000 from the General Fund.		
Purpose of Fund: To be distributed to Native American Veterans for state Individual Income Tax incorrectly withheld from military pay. DOR and the Department of Veterans' Services may use up to 5% of the \$2,000,000 transfer for administrative costs. Monies in the fund revert to the General Fund on June 30, 2021.		
Funds Expended	0	97,600
Year-End Fund Balance	0	0

Arizona State Veterinary Medical Examining Board

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
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	111,500
Professional and Outside Services	37,500	37,700	37,700
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	68,800
Equipment	2,600	1,500	1,500
AGENCY TOTAL	522,100	590,000	584,800

FUND SOURCES

Other Appropriated Funds

Veterinary Medical Examining Board Fund	522,100	590,000	584,800
SUBTOTAL - Other Appropriated Funds	522,100	590,000	584,800
SUBTOTAL - Appropriated Funds	522,100	590,000	584,800
TOTAL - ALL SOURCES	522,100	590,000	584,800

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

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The Baseline includes \$584,800 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2019 for the operating budget. FY 2019 adjustments are as follows:

FORMAT — Lump Sum by Agency

Other Issues

One-Time Relocation Costs

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,200) from the Veterinary Medical Examining Board Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Veterinary Medical Examining Board Fund (VTA2078/A.R.S. § 32-2205)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of veterinarians, veterinary technicians, and veterinary premises. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate veterinarians, veterinary technicians, and veterinary premises, and for board administration.		
Funds Expended	522,100	590,000
Year-End Fund Balance	2,181,800	1,670,700

Department of Water Resources

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.0	139.0	139.0
Personal Services	4,102,100	5,181,400	5,181,400
Employee Related Expenditures	1,521,100	2,003,600	1,925,400
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	1,651,500
Equipment	321,500	371,500	371,500
OPERATING SUBTOTAL	7,564,900	9,630,000	9,551,800
SPECIAL LINE ITEMS			
Adjudication Support	1,246,000	1,749,500	1,724,800
Assured and Adequate Water Supply Administration	1,630,700	1,998,600	1,977,000
Automated Groundwater Monitoring	235,100	413,100	408,700
Conservation and Drought Program	396,800	412,300	406,900
Drought Contingency Program	0	2,000,000	2,000,000
Lower Colorado River Litigation Expenses	34,100	500,000	500,000
Rural Water Studies	1,091,700	1,168,000	1,154,100
Arizona Water Protection Fund Deposit	0	250,000	250,000
AGENCY TOTAL	12,199,300	18,121,500	17,973,300
FUND SOURCES			
General Fund	11,590,600	16,001,900	15,854,200
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	0	266,800	266,300
Water Banking Fund	0	1,211,400	1,211,400
Water Resources Fund	608,700	641,400	641,400
SUBTOTAL - Other Appropriated Funds	608,700	2,119,600	2,119,100
SUBTOTAL - Appropriated Funds	12,199,300	18,121,500	17,973,300
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	26,456,200

AGENCY DESCRIPTION — The Department of Water Resources administers and enforces Arizona's groundwater and surface water law, as well as legally representing the state's water rights. The department also participates in surveying water level and quality and planning flood control.

Operating Budget

The Baseline includes \$9,551,800 and 79 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	\$8,199,000
Water Banking Fund	1,211,400
Water Resources Fund	141,400

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(78,200) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions section.)*

Adjudication Support

The Baseline includes \$1,724,800 and 21 FTE Positions from the General Fund in FY 2019 for Adjudication Support. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(24,700) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$1,977,000 and 21 FTE Positions in FY 2019 for the Assured and Adequate Water Supply (AAWS) Administration Program. These amounts consist of:

General Fund	1,710,700
AAWS Administration Fund	266,300

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(21,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(21,100)
AAWS Administration Fund	(500)

All new subdivisions within the state’s 5 Active Management Areas (AMAs) must either obtain a Certificate of Assured Water Supply from the Department of Water Resources or obtain a commitment of water service from a municipal provider designated as having an Assured Water Supply. An applicant for a Certificate of Assured Water Supply or a Designation of Assured Water Supply must demonstrate the availability of water for the next 100 years.

New developers outside the 5 AMAs may obtain a commitment of water service from a municipal water provider designated as having an Adequate Water Supply or developers must obtain from the department a report of the water available to the new subdivision for 100 years before any lots may be sold. In most areas outside the AMAs, if the water supply report determined the

water supply to be inadequate, lots may still be sold, but buyers must be notified of the determination. In certain areas outside the AMAs, lots may not be sold unless the water supply is determined to be adequate for 100 years.

Automated Groundwater Monitoring

The Baseline includes \$408,700 and 2 FTE Positions from the General Fund in FY 2019 for Automated Groundwater Monitoring. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(4,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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.

Conservation and Drought Program

The Baseline includes \$406,900 and 5 FTE Positions from the General Fund in FY 2019 for the Conservation and Drought Program. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(5,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline 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 will not appear in the FY 2019 General Appropriation Act.

Lower Colorado River Litigation Expenses

The Baseline includes \$500,000 from the Water Resources Fund in FY 2019 for Lower Colorado River Litigation Expenses. This amount is unchanged from FY 2018.

This line item pays 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.

Rural Water Studies

The Baseline includes \$1,154,100 and 11 FTE Positions from the General Fund in FY 2019 for Rural Water Studies. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of \$(13,900) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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 Baseline includes \$250,000 from the General Fund in FY 2019 for the Arizona Water Protection Fund Deposit line item. This amount is unchanged from FY 2018.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

This appropriation from the Lower Colorado River Litigation Expenses line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

The Department of Water Resources may not transfer any monies from the Lower Colorado River Litigation Expenses line item without prior review by the Joint Legislative Budget Committee.

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.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions from their unobligated balances in FY 2019.
- As session law, continue to allow the Director to maintain prior year fees in FY 2019 with the provision that the fee revenue be deposited in the Water Resources Fund with the intent that the fees are not to exceed \$100,200.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Administrative Fund (WCA3025/A.R.S. § 45-113)		Non-Appropriated
<i>Source of Revenue:</i> A portion of application, certificate, license, permit and inspection fees.		
<i>Purpose of Fund:</i> To cover the costs of administrative services and expenses.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Assured and Adequate Water Supply Administration Fund (WCA2509/A.R.S. § 45-580)		Appropriated
<i>Source of Revenue:</i> Fees for applications relating to adequate and assured water supply regulations for newly-created subdivisions.		
<i>Purpose of Fund:</i> To support the costs and expenses incurred when determining and declaring compliance with assured and adequate water supply regulations.		
Funds Expended	0	266,800
Year-End Fund Balance	567,300	437,000
Augmentation and Conservation Assistance Fund (WCA2213/A.R.S. § 45-615)		Non-Appropriated
<i>Source of Revenue:</i> A portion of fees for groundwater withdrawal in Active Water Management Areas (AMA).		
<i>Purpose of Fund:</i> Generally, to support water supply augmentation projects, such as groundwater recharge, as well as AMA conservation programs. By law, each AMA has its own subaccount within the fund. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid.		
Funds Expended	694,300	920,000
Year-End Fund Balance	2,055,500	2,694,300
Colorado River Water Use Fee Clearing Account (WCA2538/A.R.S. § 45-333)		Non-Appropriated
<i>Source of Revenue:</i> Fees assessed to those who divert and consume water from the mainstream of the Colorado River.		
<i>Purpose of Fund:</i> Monies are transferred to the Lower River Multispecies Conservation Program.		
Funds Expended	18,000	7,000
Year-End Fund Balance	3,500	0
Dam Repair Fund (WCA2218/A.R.S. § 45-1212.01)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations, dam safety inspection fees, and filing fees.		
<i>Purpose of Fund:</i> Generally, to offer loans and grants for private dam owners to make non-emergency repairs, and for program operations.		
Funds Expended	500	1,502,000
Year-End Fund Balance	4,414,300	2,852,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Federal Grants (WCA2000/A.R.S. § 45-105)		Non-Appropriated
<i>Source of Revenue:</i> Grants from the federal government.		
<i>Purpose of Fund:</i> To support water protection, rural water studies, and water banking initiatives, as well as certain operating expenses.		
Funds Expended	312,500	253,100
Year-End Fund Balance	815,700	902,400
Flood Warning System Fund (WCA1021/A.R.S. § 45-1503)		Non-Appropriated
<i>Source of Revenue:</i> Legislative appropriations, grants, and contributions from other public agencies.		
<i>Purpose of Fund:</i> To develop a flood warning system, purchase flood warning equipment, and provide assistance to local entities on a cost sharing basis for the planning, design, installation, operation, and maintenance of flood warning systems.		
Funds Expended	1,400	42,000
Year-End Fund Balance	385,100	359,100
General Adjudications Fund (WCA2191/A.R.S. § 45-260)		Non-Appropriated
<i>Source of Revenue:</i> Court fees paid by water claimants and from legislative appropriations.		
<i>Purpose of Fund:</i> To cover postage and other costs of serving legal notices to water rights claimants and of publicizing court proceedings. Also to remit filing fees to the courts.		
Funds Expended	12,200	24,000
Year-End Fund Balance	30,700	15,700
Indirect Cost Recovery Fund (WCA9000/A.R.S. § 45-104)		Non-Appropriated
<i>Source of Revenue:</i> Cost allocation transfers of federal and other non-appropriated funds.		
<i>Purpose of Fund:</i> To provide various indirect administrative services, including security and cashing.		
Funds Expended	92,600	95,600
Year-End Fund Balance	1,828,600	2,413,300
Interagency Service Agreement Fund (WCA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Collections from other state and local agencies.		
<i>Purpose of Fund:</i> To pay for projects based upon interagency service agreements with other agencies.		
Funds Expended	189,600	230,000
Year-End Fund Balance	565,900	566,900
Production and Copying Fund (WCA2411/A.R.S. § 45-115)		Non-Appropriated
<i>Source of Revenue:</i> From monies received for department publications and for copies of department records. Any amount in excess of \$20,000 at the end of each fiscal year reverts to the Water Resources Fund.		
<i>Purpose of Fund:</i> To produce and distribute department publications, as well as to copy department records.		
Funds Expended	10,600	4,000
Year-End Fund Balance	9,500	7,500
Publication and Mailing Fund (WCA2410/A.R.S. § 45-116)		Non-Appropriated
<i>Source of Revenue:</i> From monies received for the publication and mailing of legal notices as required by law. Any amount in excess of \$20,000 at the end of each fiscal year reverts to the Water Resources Fund.		
<i>Purpose of Fund:</i> To publish and mail legal notices.		
Funds Expended	2,100	2,000
Year-End Fund Balance	7,100	10,100

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Purchase and Retirement Fund (WCA2474/A.R.S. § 45-615)		Non-Appropriated
Source of Revenue: A portion of fees for groundwater withdrawal in AMAs.		
Purpose of Fund: To purchase and retire grandfathered groundwater rights, those entitlements legally owned or used before the creation of an AMA in a given area. By law, each AMA has its own subaccount within the fund.		
Funds Expended	0	100
Year-End Fund Balance	139,700	140,600
Statewide Donations Fund (WCA2025/A.R.S. § 45-105)		Non-Appropriated
Source of Revenue: Grants, gifts or donations of money or other property from any source.		
Purpose of Fund: Funds may be used for any purpose consistent with the duties and powers of the Director of the Department of Water Resources as described in statute.		
Funds Expended	5,500	280,400
Year-End Fund Balance	218,300	212,700
Water Banking Fund (WCA2110/A.R.S. § 45-2425)		Partially-Appropriated
Source of Revenue: General Fund appropriations and fees associated with the purchase, lease, storage, accreditation, and delivery of Colorado River water to municipalities and industrial water users. Revenue also comes from a portion of the 4% property tax collected by CAWCD to pay for water storage. By law, each AMA has its own subaccount within the fund. This fund operates on the calendar year. Because fees and taxes are collected at the end of the fiscal year, the Year-End Fund Balances are not reflective of the calendar year-end balances. Appropriations from this fund may include monies received through agreements with Nevada.		
Purpose of Fund: To purchase and store the unused portion of Arizona's Colorado River water allotment. The department provides administrative support for this fund, but control of expenditures is vested with AWBA. In addition, pursuant to an interstate water banking agreement with Nevada, to obtain, store, and retrieve water for Nevada.		
Appropriated Funds Expended	0	1,211,400
Non-Appropriated Funds Expended	18,278,100	4,341,500
Year-End Fund Balance	3,817,700	2,384,800
Water Protection Fund (WCA1302/A.R.S. § 45-2111)		Non-Appropriated
Source of Revenue: From purchases or leases of CAP water. Laws 2016, Chapter 117 appropriated \$250,000 from the General Fund to the Water Protection Fund, and the FY 2018 budget makes this an ongoing appropriation.		
Purpose of Fund: To provide grants for projects that protect water quality and quantity, as well as to maintain, enhance, and restore rivers, streams, and associated riparian habitats. The Water Protection Fund Commission reviews grant applications and determines annual recipients. The department provides administrative support for this fund, but control of expenditures is vested with the commission. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid. The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) allows the Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2018.		
Funds Expended	506,800	576,500
Year-End Fund Balance	1,445,400	1,113,900
Water Quality Fund (WCA2304/A.R.S. § 45-618)		Non-Appropriated
Source of Revenue: From annual Water Quality Assurance Revolving Fund (WQARF) transfers negotiated with the Arizona Department of Environmental Quality (ADEQ), as well as from legislative appropriations, grants, and contributions from other public agencies.		
Purpose of Fund: To inspect wells for groundwater contamination and to take appropriate remedial action on contaminated wells. Inspections are done in conjunction with the ADEQ WQARF program.		
Funds Expended	104,900	134,800
Year-End Fund Balance	540,200	540,200

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate
Water Resources Fund (WCA2398/A.R.S. § 45-117)		Appropriated
Source of Revenue: Consists of monies from legislative appropriations, donations, and fees collected by ADWR to carry out its statutory functions, as well as existing fees that had been deposited into the General Fund. The FY 2018 Environment Budget Reconciliation Bill (Laws 2017, Chapter 308) allows the director to maintain prior year fees and requires that these revenues be deposited into the fund with the intent that the fee increases do not exceed \$100,200.		
Purpose of Fund: Fees deposited in the Water Resources Fund are to be held in trust and only used to carry out its statutory responsibilities, including managing the state's water supplies, enforcing groundwater laws, and representing the state's water rights.		
Funds Expended	608,700	641,400
Year-End Fund Balance	3,640,500	3,416,600
Well Administration and Enforcement Fund (WCA2491/A.R.S. § 45-606)		Non-Appropriated
Source of Revenue: Well-drilling filing and permit fees.		
Purpose of Fund: To monitor, investigate, and enforce regulations concerning the construction, replacement, deepening, and abandonment of wells, as well as the capping of open wells.		
Funds Expended	70,900	69,900
Year-End Fund Balance	939,700	1,297,800

CAPITAL OUTLAY ESTIMATES

**Capital Outlay
Summary**

FY 2019
BASELINE

BUILDING RENEWAL

ADOA Building System	14,420,600
ADOT Building System	4,732,300
ABOR Building System	0
SUBTOTAL	19,152,900

INDIVIDUAL PROJECTS

ADOA Building System	0
ADOT Building System	411,815,500
ABOR Building System	0
SUBTOTAL	411,815,500

DEBT AND LEASE-PURCHASE FINANCING

2010 Leaseback Financing	84,112,000
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LOCAL ASSISTANCE

Phoenix Convention Center	22,996,300
Rio Nuevo District	14,000,000
SUBTOTAL	36,996,300

TOTALS

ADOA Building System	14,420,600
ADOT Building System	416,547,800
ABOR Building System	0
Other Funding (Lease-Purchase/Local Assistance)	121,108,300
TOTAL - ALL PROJECTS	552,076,700

FUND SOURCES

General Fund	126,808,300
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	2,600,000
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
Highway Expansion and Extension Loan Program Fund	30,000,000
State Aviation Fund	19,030,800
State Highway Fund	367,517,000
State Lottery Fund	126,300
SUBTOTAL - Other Appropriated Funds	425,268,400
SUBTOTAL - Appropriated Funds	552,076,700
Other Non-Appropriated Funds	437,420,000
Federal Funds	914,274,000
TOTAL - ALL SOURCES	1,903,770,700

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:

Summary

Capital Outlay

The Baseline includes a total of \$552,076,700 from Appropriated Funds in FY 2019. Of the total, \$126,808,300 is from the General Fund and \$425,268,400 is from Other Appropriated Funds. The Baseline consists of 4 main categories: 1) Building Renewal, 2) Individual Projects, 3) Debt and Lease-Purchase Financing; and 4) Local Assistance.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review. The formula takes into account the replacement value, age, and life-cycle of a building. Available appropriations are administered by ADOA (or individual agencies within the ADOA Building System that have their own funding source for building renewal), ADOT, and ABOR.

The Baseline includes total funding of \$19,152,900 in FY 2019 for Building Renewal, which consists of \$5,700,000 from the General Fund and \$13,452,900 from Other Appropriated Funds. These amounts include:

	FY 2019
Arizona Department of Administration	\$8,300,000
General Fund - \$5,700,000	
Capital Outlay Stabilization Fund - \$2,600,000	
@ 19.4% (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 @ 54.2%	530,000
State Lottery Commission	
State Lottery Fund @ 100%	<u>126,300</u>
Subtotal - ADOA	\$14,420,600
Arizona Department of Transportation	
State Highway Fund @ 34.8%	\$4,500,000
State Aviation Fund @ 89.7%	<u>232,300</u>
Subtotal - ADOT	\$4,732,300

(See the individual building systems' section for more information.)

Individual Projects

The Baseline includes total funding of \$411,815,500 in FY 2019 for individual capital projects, which consists of \$411,815,500 from Other Appropriated Funds. *(See the individual building systems' sections for more information.)*

Debt and Lease-Purchase Financing

The Baseline 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 Baseline 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.)*

* * *

FOOTNOTES

Capital Standard Footnotes

Building Renewal

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 amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section may not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review.

Individual Projects

Pursuant to A.R.S. § 41-1252A4, ~~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.~~ THE EXPENDITURE OF ALL MONIES APPROPRIATED IN THIS ACT FOR LAND ACQUISITION, CAPITAL PROJECTS AND BUILDING RENEWAL SHALL BE SUBMITTED FOR REVIEW BY THE

JOINT COMMITTEE ON CAPITAL REVIEW. THIS SECTION SHALL NOT APPLY TO MONIES APPROPRIATED TO THE DEPARTMENT OF TRANSPORTATION FOR STATEWIDE HIGHWAY CONSTRUCTION OR AIRPORT PLANNING AND DEVELOPMENT.

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.

New Footnotes

For the purposes of this act, "review by the Joint Committee on Capital Review" means a review by a vote of a majority of a quorum of the members. *(The Baseline would add a definition of JCCR review, similar to a General Appropriation Act footnote which defines JLBC review.)*

Capital Outlay

Arizona Department of Administration Building System

FY 2019
BASELINE

BUILDING RENEWAL

Department of Administration	8,300,000
Department of Corrections	5,464,300
Game and Fish Department	530,000
Arizona State Lottery Commission	126,300
TOTAL - ALL PROJECTS	14,420,600

FUND SOURCES

General Fund	5,700,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	2,600,000
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Lottery Fund	126,300
SUBTOTAL - Other Appropriated Funds	8,720,600
SUBTOTAL - Appropriated Funds	14,420,600

TOTAL - ALL SOURCES

14,420,600

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.

The following amounts are one-time appropriations:

Building Renewal

Building Renewal

The Baseline includes \$14,420,600 from Other Appropriated Funds in FY 2019 for Building Renewal within the ADOA Building System. These amounts consist of:

- \$8,300,000 to ADOA which consists of \$5,700,000 from the General Fund and \$2,600,000 from the Capital Outlay Stabilization Fund (COSF). This amount funds 19.4% 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 2018 Capital Outlay Bill (Laws 2017, Chapter 306, Sec 11) appropriated the \$5.7 million of one-time funding from the General Fund in both FY 2018 and FY 2019. As a result, these monies would not appear in the FY 2019 Capital Outlay Bill.
- \$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.

- \$530,000 to Arizona Game and Fish Department from the Game and Fish Fund which funds 54.2% of the Game and Fish building renewal formula. The FY 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 Baseline 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 Baseline continues the footnote requiring that unused building renewal monies revert after 2 fiscal years at the end of FY 2020.

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital Standard Footnotes.)

Building Renewal

The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration is reduced by the difference between the amount appropriated to the Department of Administration from the Capital Outlay Stabilization Fund and the balance in the Capital Outlay Stabilization Fund. ~~The Department of Administration may allocate the appropriation in this subsection for the replacement of modular offices and remote housing at the Department of Public Safety. (The footnote removes one-time authority allowing ADOA to spend building renewal monies to replace modular offices and remote housing at DPS.)~~

On or before January 31, 2019 and July 31, 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.

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 the management of the funded projects.

Other

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. *(This footnote requires all unspent appropriations to revert after 2 years with the exception of the Arizona Department of Transportation statewide highway construction and airport planning and development appropriations.)*

New Footnotes

Prior to taking any action related to the demolition of 1275 W. Washington, the Department of Administration shall request review from the Joint Committee on Capital Review.

On or before August 15, 2018, the Department of Administration shall submit to the Joint Committee on Capital Review for review, a report on its plan for the relocation of state agencies on the Capitol Mall and the renovation of Capitol Mall buildings. The report shall identify agencies selected to move from privately leased space and the planned disposition of vacant state buildings. In addition the report shall include the number of FTE positions identified to relocate to the Capitol Mall and the total square feet needed to accommodate the FTE positions.

The appropriation of \$120,000 in FY 2017 to the Department of Administration to repair the 1938 Works Progress Administration civic building on the State Fairgrounds pursuant to Laws 2016, Chapter 126, Section 1 is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2020. *(This footnote would extend the lapsing date of the FY 2017 building renewal appropriation for the repair of the WPA building at the State Fairgrounds. This appropriation is currently scheduled to lapse on June 30, 2018 and has not been spent due to ongoing discussions between ADOA and the City of Phoenix regarding the project.)*

Deleted Footnotes

The Baseline would delete footnotes that individual capital projects require JCCR review, as the FY 2019 Baseline does not fund any individual projects within the ADOA Building System.

Other Issues

Agency Relocation

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated \$4.2 million to ADOA to renovate the 1740 W. Adams building. Laws 2016, Chapter 126 requires JCCR to review ADOA's tenant relocation plan. At the December 2016 JCCR meeting, the Committee favorably reviewed ADOA's plan.

ADOA's plan includes the relocation of most of the state's 90/10 regulatory boards, including those located at Doubletree Road and in privately-leased space along with all the boards and other small agencies currently located at 1400 W. Washington. The proposal would leave 1400 W. Washington empty for potential renovation in FY 2019. Funding for this renovation has not yet been authorized by the Legislature.

ADOA proposes to use the proceeds from the sale of 2910 N 44th Street (which was listed for sale in November 2017) to fund the 1400 W. Washington renovation. In any circumstance, the Department of Insurance, Department of Financial Institutions, and the State Real Estate Department will relocate from the 44th Street building to the ADOA building on the Capitol Mall. Another 44th Street tenant, the Auditor General, will either rent from the new building owner or move into other private space. The Auditor General estimates its rent will increase by \$163,100.

In addition, the FY 2017 budget appropriated \$576,800 from Other Funds for costs incurred by agencies relocated to the renovated 1740 W. Adams building. The JLBC is required to allocate these monies to agencies. (See Table 1 for the allocations.) The FY 2018 budget made this funding non-lapsing through the end of FY 2018.

COSF Rental Rate Change & Payment Adjustments

The Baseline does not fund changes in agency lease-purchase and rental charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.

Excluding the ADOA sale/leaseback (which is budgeted separately) and the ADC Kingman refinance (as the agency has retained sufficient funding for the lease-purchase payment change) 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>(1,637,200)</u>	<u>(3,454,300)</u>
	\$ (1,008,500)	\$(3,084,200)

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 also excluded as that item is separately budgeted.

Rent Adjustments

In FY 2019, state building rent payments will decrease by \$(3,454,300), which consists of \$(1,637,200) from the General Fund, \$(1,319,200) from Other Appropriated Funds, and \$(497,900) from Non-Appropriated Funds.

The reduction in rent payments is due to renovations and agency space consolidations. In addition, the Attorney General's Office vacated its space located at 1275 W. Washington and relocated to private leased space.

The Baseline includes an updated Summary of Rent Charges, which reflects updated space utilization amounts when applying the current rental rates of state building space (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.). (Please see Summary of Rent Charges for additional information.)

Table 1	
Agency Fund	Relocation Allocation
<u>Agency Fund</u>	<u>FY 2017</u>
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	<u>\$576,800</u>

The FY 2017 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 127) requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price. ADOA reports that the sale of the building will be final in January 2018. The sale will generate approximately \$3.1 million in revenue to the General Fund.

LEASE-PURCHASE APPROPRIATIONS 1/ Department of Administration Building System

	Fiscal Year 2018 - Appropriations Report			Fiscal Year 2019 - Baseline			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	\$84,115,100			\$84,115,100	\$84,112,000			\$84,112,000	(\$3,100)			(\$3,100)
Sale/Lease-Back												
Subtotal - AZ Department of Administration												
Administration, AZ Department of Administration Buildings 2/												
Accountancy, State Board of	\$805,500	\$113,000		\$918,500	\$536,200	\$115,900	\$1,381,900	\$1,444,400	\$2,900	\$693,900	(\$72,500)	(\$1,035,700)
Deaf and the Hard of Hearing, Commission for the		3,098,200		3,098,200			222,400	0	5,600			5,600
Economic Opportunity, Office of 3/	26,000	216,800		242,800	49,300	24,700	274,100	200,100	23,300	10,900	(27,400)	6,800
Equalization, State Board of	88,400	13,800		102,200	90,700	90,700	270,100	270,100	2,300			2,300
Financial Institutions, Department of		88,400		88,400			43,200	97,800		43,200		43,200
Insurance, Department of					226,900		270,100	270,100		226,900		270,100
Real Estate Department, State		293,300		293,300	293,300		391,100	391,100		293,300		391,100
Tax Appeals, State Board of		190,300		190,300	190,300		190,300	190,300		190,300		190,300
Subtotal - ADOA Building	34,000	34,000		68,000	34,900	34,900	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 4/	\$15,806,400	\$15,806,400		\$31,612,800	\$15,803,200		\$15,803,200	\$15,803,200	(\$3,200)			(\$3,200)
Water and Wastewater Projects 4/	645,100	645,100		1,290,200	649,200		649,200	649,200	4,100			4,100
1,000 Public Prison Beds - Refinance 5/	3,071,900	3,071,900		6,143,800	3,072,900		3,072,900	3,072,900	1,000			1,000
Kingman - Refinance 6/	17,463,300	17,463,300		34,926,600	17,465,400		17,465,400	17,465,400	2,100			2,100
Subtotal - AZ Department of Corrections	\$36,986,700	\$36,986,700		\$73,973,400	\$36,950,700	\$0	\$36,950,700	\$36,950,700	\$4,000	\$0	\$0	\$4,000
Department of Environmental Quality Building 2/												
Automobile Theft Authority												
Administration, Arizona Department of												
Criminal Justice Commission, Arizona		\$10,700	\$167,300	\$178,000	\$55,900	\$43,800	\$144,000	\$15,100	\$43,800	\$144,000	\$15,100	\$215,000
Environmental Quality, Department of	\$211,800	3,188,100		3,399,900	229,200	243,400	34,200	568,900	17,400	89,000	0	89,000
Forestry and Fire Management, AZ Department of		553,300		553,300	67,300	22,400	358,900	448,600	1,900	500	9,900	15,600
Gaming, Department of	65,400	21,900	349,000	436,300	109,600	109,600	109,600	109,600	3,000	3,000		6,000
Housing, AZ Department of		174,100		174,100	778,300	179,000	179,000	179,000	4,900	4,900		9,800
Residential Utility Consumer Office												
Technical Registration, State Board of												
Water Resources, Department of	757,100	757,100		1,514,200	778,300	778,300	778,300	778,300	21,200	21,200		42,400
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 7/	\$1,994,100	\$1,329,800		\$3,323,900	\$2,058,300	\$1,372,200	\$0	\$3,430,500	\$64,200	\$42,400		\$106,600
Health Lab - Refinance 5/	3,063,600	2,033,300		5,096,900	0	2,032,300	0	2,032,300	(1,000)	(1,000)		(1,000)
Arizona State Hospital Forensic Unit 4/	\$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
Subtotal - Department of Health Services	\$126,147,700	\$9,837,200	\$992,300	\$136,977,200	\$128,773,300	\$9,548,400	\$1,022,500	\$139,344,200	\$625,600	\$289,800	\$30,200	\$367,000
GRAND TOTAL												

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 Baseline			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	5,300	0	5,300	0	5,300	0	5,300
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	\$5,300	\$0	\$5,300	\$0	\$700	\$0	\$700
Administration, AZ Department of												
1510 W Adams	0	353,600	0	353,600	0	353,700	0	353,700	0	100	0	100
1520 W Adams	0	195,000	0	195,000	0	195,000	0	195,000	0	0	0	0
1537 W Jackson	0	86,000	0	86,000	0	86,900	0	86,900	0	900	0	900
1616 W Adams	0	77,300	0	77,300	0	77,300	0	77,300	0	0	0	0
1802 W Jackson	0	17,500	43,600	61,100	0	17,600	43,600	61,200	0	100	0	100
1840 W Jackson	0	64,500	0	64,500	0	64,600	0	64,600	0	100	0	100
1850 W Jackson	0	44,500	0	44,500	0	44,500	0	44,500	0	0	0	0
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	82,200	0	0	82,200	0	0	0	0
1740 W. Adams	0	0	0	0	61,600	0	0	61,600	0	61,600	0	61,600
1501 W Madison	0	41,900	0	41,900	0	41,900	0	41,900	0	0	0	0
1801 W Madison	0	21,200	0	21,200	0	21,500	0	21,500	0	300	0	300
1805 W Madison	0	24,700	0	24,700	0	24,700	0	24,700	0	0	0	0
400 W Congress, Tucson	0	47,600	0	47,600	0	47,600	0	47,600	0	0	0	0
402 W Congress, Tucson	0	56,200	0	56,200	0	56,200	0	56,200	0	0	0	0
416 W Congress, Tucson	0	2,700	0	2,700	0	2,700	0	2,700	0	0	0	0
Subtotal - AZ Dept of Administration	\$37,500	\$1,161,000	\$43,600	\$1,242,100	\$34,100	\$1,179,000	\$43,600	\$1,255,700	(\$3,400)	\$17,000	\$0	\$13,600
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	50,400	0	93,600	144,000	50,400	0	93,600	144,000
400 W Congress, Tucson	0	11,400	0	11,400	0	11,400	0	11,400	0	0	0	0
Subtotal - Office of Administrative Hearings	\$71,400	\$12,300	\$132,200	\$215,900	\$50,400	\$11,400	\$93,600	\$155,400	(\$21,000)	(\$900)	(\$38,600)	(\$60,500)
African American Affairs, AZ Commission of												
1700 W Washington	5,900	0	0	5,900	5,900	0	0	5,900	0	0	0	0
Agriculture, AZ Department of												
1520 W Adams	107,400	0	0	107,400	107,400	0	0	107,400	0	0	0	0
1688 W Adams	197,700	46,300	222,700	466,700	197,800	46,300	222,700	466,800	100	0	0	100
400 W Congress, Tucson	32,100	3,900	4,700	40,700	32,100	3,900	4,700	40,700	0	0	0	0
Subtotal - AZ Dept of Agriculture	\$337,200	\$50,200	\$227,400	\$614,800	\$337,300	\$50,200	\$227,400	\$614,900	\$100	\$0	\$0	\$100
AZ Health Care Cost Containment System												
Kingman Building	6,800	0	6,600	13,400	6,800	0	6,600	13,400	0	0	0	0
Arts, AZ Commission on the												
417 W Roosevelt	0	0	49,700	49,700	0	0	49,700	49,700	0	0	0	0
Attorney General - Department of Law												
1275 W Washington	550,100	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	46,500	36,500	27,300	110,300	15,200	12,000	9,000	36,200
402 W Congress, Tucson	137,700	107,900	79,900	325,500	131,500	103,100	76,300	310,900	(6,200)	(4,800)	(3,600)	(14,600)
416 W Congress, Tucson	0	0	114,900	114,900	0	114,900	0	114,900	0	0	0	0
Capitol Center	991,900	348,500	0	1,340,400	991,800	348,500	0	1,340,300	(100)	0	0	(100)
Subtotal - Attorney General - Dept of Law	\$1,711,000	\$796,300	\$533,200	\$3,040,500	\$1,169,800	\$488,100	\$218,500	\$1,876,400	(\$541,200)	(\$308,200)	(\$314,700)	(\$1,164,100)
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	19,300	0	19,300	0	19,300	0	19,300
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	\$19,300	\$0	\$19,300	\$0	\$6,800	\$0	\$6,800
Behavioral Health Examiners, Board of												
1740 W Adams	0	0	0	0	68,300	0	0	68,300	0	68,300	0	68,300
Charter Schools, State Board for												
1616 W Adams	70,500	0	0	70,500	70,500	0	0	70,500	0	0	0	0
Child Safety, Department of												
1400 W Washington	0	0	42,300	42,300	0	0	0	0	0	0	0	0
Kingman Building	18,800	38,500	25,900	83,200	18,800	38,500	25,900	83,200	0	0	0	0
400 W Congress, Tucson	21,400	20,000	9,500	50,900	21,400	20,000	9,500	50,900	0	0	0	0
Capitol Center	115,100	32,000	66,100	213,200	115,100	32,000	66,100	213,200	0	0	0	0

	Fiscal Year 2018 Appropriations Report			Fiscal Year 2019 Baseline			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	\$155,300	\$90,500	\$101,500	\$347,300	\$0	\$0	(\$42,300)	(\$42,300)
Chiropractic Examiners, State Board of	\$0	\$0	\$0	\$0	\$0	\$16,300	\$0	\$16,300	\$0	\$16,300	\$0	\$16,300
1740 W Adams	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Citizens Clean Elections Commission	\$0	\$0	\$54,300	\$54,300	\$0	\$0	\$54,300	\$54,300	\$0	\$0	\$0	\$0
Contractors, Registrar of	\$0	\$38,000	\$0	\$38,000	\$0	\$38,000	\$0	\$38,000	\$0	\$0	\$0	\$0
400 W Congress, Tucson	\$0	\$288,000	\$0	\$288,000	\$0	\$277,400	\$0	\$277,400	\$0	(\$10,600)	\$0	(\$10,600)
1700 W Washington	\$0	\$326,000	\$0	\$326,000	\$0	\$315,400	\$0	\$315,400	\$0	(\$10,600)	\$0	(\$10,600)
Subtotal - Registrar of Contractors	\$0	\$326,000	\$0	\$326,000	\$0	\$315,400	\$0	\$315,400	\$0	(\$10,600)	\$0	(\$10,600)
Corporation Commission	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1200 W Washington	\$0	\$528,200	\$0	\$528,200	\$0	\$528,200	\$0	\$528,200	\$0	\$0	\$0	\$0
1300 W Washington	\$0	\$704,900	\$0	\$704,900	\$0	\$704,900	\$0	\$704,900	\$0	\$0	\$0	\$0
400 W Congress, Tucson	\$5,500	\$47,900	\$3,100	\$56,500	\$5,500	\$47,900	\$3,100	\$56,500	\$0	\$0	\$0	\$0
Subtotal - Corporation Commission	\$5,500	\$1,281,000	\$3,100	\$1,289,600	\$5,500	\$1,281,000	\$3,100	\$1,289,600	\$0	\$0	\$0	\$0
Corrections, State Department of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1601 W Jefferson	\$749,900	\$0	\$0	\$749,900	\$749,900	\$0	\$0	\$749,900	(\$100)	\$0	\$0	(\$100)
1645 W Jefferson	\$668,500	\$0	\$0	\$668,500	\$668,700	\$0	\$0	\$668,700	\$200	\$0	\$0	\$200
1831 W Jefferson	\$266,200	\$0	\$0	\$266,200	\$266,300	\$0	\$0	\$266,300	\$100	\$0	\$0	\$100
Subtotal - State Dept of Corrections	\$1,684,600	\$0	\$0	\$1,684,600	\$1,684,900	\$0	\$0	\$1,684,900	\$200	\$0	\$0	\$200
Cosmetology, Board of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1740 W Adams	\$0	\$0	\$0	\$0	\$0	\$82,700	\$0	\$82,700	\$0	\$82,700	\$0	\$82,700
Deaf and the Hard of Hearing, Commission for the	\$0	\$8,400	\$0	\$8,400	\$0	\$0	\$0	\$0	\$0	(\$8,400)	\$0	(\$8,400)
1400 W Washington	\$0	\$8,400	\$0	\$8,400	\$0	\$0	\$0	\$0	\$0	(\$8,400)	\$0	(\$8,400)
Dental Examiners, State Board of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1740 W Adams	\$0	\$0	\$0	\$0	\$0	\$34,300	\$0	\$34,300	\$0	\$34,300	\$0	\$34,300
Economic Security, Department of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$57,200)	(\$57,200)
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	\$64,100	\$29,200	\$23,400	\$116,700	\$0	\$0	\$0	\$0
1700 W Washington	\$10,400	\$4,800	\$3,800	\$19,000	\$10,400	\$4,800	\$3,800	\$19,000	\$0	\$0	\$0	\$0
1789 W Jefferson (DES West)	\$1,441,200	\$359,100	\$476,400	\$2,276,700	\$1,441,200	\$359,200	\$476,400	\$2,276,800	\$0	\$100	\$0	\$100
Kingman Building	\$31,900	\$65,500	\$44,000	\$141,400	\$31,900	\$65,500	\$44,000	\$141,400	\$0	\$0	\$0	\$0
400 W Congress, Tucson	\$190,600	\$179,600	\$86,400	\$456,600	\$190,600	\$179,600	\$86,400	\$456,600	\$0	\$0	\$0	\$0
DES Group Homes	\$139,200	\$200,100	\$0	\$339,300	\$139,200	\$200,100	\$0	\$339,300	\$0	\$0	\$0	\$0
Capitol Center	\$80,600	\$22,400	\$46,300	\$149,300	\$80,600	\$22,400	\$46,300	\$149,300	\$0	\$0	\$0	\$0
Subtotal - Department of Economic Security	\$1,958,000	\$860,700	\$737,500	\$3,556,200	\$1,958,000	\$860,800	\$680,900	\$3,499,700	\$0	\$100	(\$57,200)	(\$57,100)
Education, Department of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1535 W Jefferson	\$300,800	\$102,900	\$60,100	\$463,800	\$300,900	\$102,900	\$60,100	\$463,900	\$100	\$0	\$0	\$100
400 W Congress, Tucson	\$0	\$12,000	\$42,600	\$54,600	\$0	\$12,000	\$42,500	\$54,500	\$0	\$0	(\$100)	(\$100)
416 W Congress, Tucson	\$0	\$900	\$21,400	\$22,300	\$0	\$1,000	\$23,000	\$24,000	\$0	\$100	\$1,600	\$1,700
Subtotal - Department of Education	\$300,800	\$115,800	\$624,100	\$1,040,700	\$300,900	\$115,900	\$625,600	\$1,042,400	\$100	\$100	\$1,500	\$1,700
Education, State Board of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1535 W Jefferson	\$32,200	\$0	\$0	\$32,200	\$32,200	\$0	\$0	\$32,200	\$0	\$0	\$0	\$0
1700 W Washington	\$54,200	\$0	\$0	\$54,200	\$54,500	\$0	\$0	\$54,500	\$300	\$0	\$0	\$300
Subtotal - State Board of Education	\$86,400	\$0	\$0	\$86,400	\$86,700	\$0	\$0	\$86,700	\$300	\$0	\$0	\$300
Emergency and Military Affairs, Department of	\$0	\$0	\$9,000	\$9,000	\$0	\$0	\$9,100	\$9,100	\$0	\$0	\$0	\$0
400 W Congress St	\$0	\$0	\$9,000	\$9,000	\$0	\$0	\$9,100	\$9,100	\$0	\$0	\$0	\$0
Environmental Quality, Department of	\$0	\$96,700	\$0	\$96,700	\$0	\$96,800	\$0	\$96,800	\$0	\$0	\$0	\$0
400 W Congress, Tucson	\$0	\$0	\$5,300	\$5,300	\$0	\$0	\$5,300	\$5,300	\$0	\$0	\$0	\$0
416 W Congress, Tucson	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal - Dept. of Environmental Quality	\$0	\$96,700	\$5,300	\$102,000	\$0	\$96,800	\$5,300	\$102,100	\$0	\$100	\$0	\$100
Equalization, State Board of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
400 W Congress, Tucson	\$19,800	\$0	\$0	\$19,800	\$19,800	\$0	\$0	\$19,800	\$1,500	\$0	\$0	\$1,500
416 W Congress, Tucson	\$0	\$0	\$0	\$0	\$1,500	\$0	\$0	\$1,500	\$0	\$0	\$0	\$0
Subtotal - Board of Equalization	\$19,800	\$0	\$0	\$19,800	\$21,300	\$0	\$0	\$21,300	\$1,500	\$0	\$0	\$1,500
Executive Clemency, Board of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1645 W Jefferson	\$86,200	\$0	\$0	\$86,200	\$86,200	\$0	\$0	\$86,200	\$0	\$0	\$0	\$0
Financial Institutions, Department of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0	\$15,000	\$0	\$15,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1400 W Washington	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1740 W Adams	\$0	\$0	\$0	\$0	\$0	\$11,500	\$0	\$11,500	\$0	\$11,500	\$0	\$11,500
Subtotal - Funeral Board	\$0	\$15,000	\$0	\$15,000	\$0	\$11,500	\$0	\$11,500	\$0	\$11,500	\$0	\$11,500
Gaming, Department of	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
400 W Congress, Tucson	\$0	\$14,000	\$0	\$14,000	\$0	\$14,000	\$0	\$14,000	\$0	\$0	\$0	\$0

	Fiscal Year 2018 Appropriations Report			Fiscal Year 2019 Baseline			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
Governor, Office of the												
1700 W Washington	564,700	0	63,300	628,000	508,300	0	119,700	628,000	(56,400)	0	56,400	0
1700 W Washington (Office of Highway Safety)	0	0	69,600	69,600	0	0	73,700	73,700	0	0	4,100	4,100
400 W Congress, Tucson	30,000	0	0	30,000	30,000	0	0	30,000	0	0	0	0
Gov's Ofc of Strategic Planning & Budgeting	\$594,700	\$0	\$132,900	\$727,600	\$538,300	\$0	\$193,400	\$731,700	(\$56,400)	\$0	\$60,500	\$4,100
1700 W Washington	130,600	0	0	130,600	130,600	0	0	130,600	0	0	0	0
Health Services, Department of												
1740 W Adams	0	1,013,400	0	1,013,400	0	0	0	0	0	(1,013,400)	0	(1,013,400)
1818 W Adams	209,600	0	0	209,600	209,600	0	0	209,600	0	0	0	0
400 W Congress, Tucson	84,100	50,300	0	134,400	84,100	50,300	0	134,400	0	0	0	0
402 W Congress, Tucson	0	3,300	0	3,300	0	3,300	0	3,300	0	0	0	0
416 W Congress, Tucson	0	57,300	0	57,300	0	0	0	0	0	(57,300)	0	(57,300)
Subtotal - Department of Health Services	\$293,700	\$1,124,300	\$0	\$1,418,000	\$293,700	\$53,600	\$0	\$347,300	\$0	(\$1,070,700)	\$0	(\$1,070,700)
Homeland Security, AZ Dept of												
1700 W Washington	0	0	133,100	133,100	0	0	133,100	133,100	0	0	0	0
Homeopathic & Integrated Medicine Examiners,												
Board of												
1400 W Washington	0	5,000	0	5,000	0	0	0	0	0	0	0	0
1740 W Adams	0	0	0	0	0	5,400	0	5,400	0	(5,000)	0	(5,000)
Subtotal - Board of Homeopathic & Integrated	\$0	\$5,000	\$0	\$5,000	\$0	\$5,400	\$0	\$5,400	\$0	\$400	\$0	\$400
Medicine Examiners												
Insurance, Department of												
2910 N 44th Street	323,300	0	107,800	431,100	0	0	0	0	(323,300)	0	(107,800)	(431,100)
Judiciary - Court of Appeals												
400 W Congress, Tucson	380,700	0	0	380,700	380,700	0	0	380,700	0	0	0	0
Judiciary - Supreme Court												
1501 W Washington	2,859,700	0	0	2,859,700	2,859,800	0	0	2,859,800	100	0	0	100
400 W Congress, Tucson	83,800	0	0	83,800	83,800	0	0	83,800	0	0	0	0
Subtotal - Supreme Court	\$2,943,500	\$0	\$0	\$2,943,500	\$2,943,600	\$0	\$0	\$2,943,600	\$100	\$0	\$0	\$100
Subtotal - Judiciary	\$3,324,200	\$0	\$0	\$3,324,200	\$3,324,300	\$0	\$0	\$3,324,300	\$100	\$0	\$0	\$100
Juvenile Corrections, Department of												
1624 W Adams	364,700	0	0	364,700	364,700	0	0	364,700	0	0	0	0
Land Department, State												
1616 W Adams	0	779,700	0	779,700	0	779,700	0	779,700	0	0	0	0
Legislature - Auditor General												
2910 N 44th Street	375,600	0	0	375,600	0	0	0	0	(375,600)	0	0	(375,600)
Liquor Licenses and Control, Department of												
400 W Congress, Tucson	0	21,700	0	21,700	0	5,000	0	5,000	0	(16,700)	0	(16,700)
Massage Therapy, Board of												
1400 W Washington	0	28,400	0	28,400	0	0	0	0	0	(28,400)	0	(28,400)
1740 W Adams	0	0	0	0	0	17,700	0	17,700	0	17,700	0	17,700
Subtotal - Massage Therapy Board	\$0	\$28,400	\$0	\$28,400	\$0	\$17,700	\$0	\$17,700	\$0	(\$10,700)	\$0	(\$10,700)
Medical Board, AZ												
9500 Doubletree Rd.	0	200,000	0	200,000	0	0	0	0	0	(200,000)	0	(200,000)
1740 W Adams	0	0	0	0	0	150,200	0	150,200	0	150,200	0	150,200
Subtotal - Medical Board	\$0	\$200,000	\$0	\$200,000	\$0	\$150,200	\$0	\$150,200	\$0	(\$49,800)	\$0	(\$49,800)
Mine Inspector, State												
1700 W Washington	75,100	0	0	75,100	75,000	0	0	75,000	(100)	0	0	(100)
Naturopathic Physicians Medical Board												
1400 W Washington	0	8,000	0	8,000	0	0	0	0	0	(8,000)	0	(8,000)
1740 W Adams	0	0	0	0	0	6,600	0	6,600	0	6,600	0	6,600
Subtotal - Naturopathic Physicians Board	\$0	\$8,000	\$0	\$8,000	\$0	\$6,600	\$0	\$6,600	\$0	(\$1,400)	\$0	(\$1,400)
Navigable Stream Adjudication Commission, AZ												
1700 W Washington	10,000	0	0	10,000	10,000	0	0	10,000	0	0	0	0
Nursing, State Board of												
1740 W Adams	0	0	0	0	0	151,800	0	151,800	0	151,800	0	151,800
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.												
1400 W Washington	0	23,000	0	23,000	0	0	0	0	0	(23,000)	0	(23,000)
1740 W Adams	0	0	0	0	0	14,300	0	14,300	0	14,300	0	14,300
Subtotal - Nursing Care Board	\$0	\$23,000	\$0	\$23,000	\$0	\$14,300	\$0	\$14,300	\$0	(\$8,700)	\$0	(\$8,700)
Occupational Therapy Examiners, State Board of												
1740 W Adams	0	0	0	0	0	9,300	0	9,300	0	9,300	0	9,300
Opticians, State Board of Dispensing												

Fiscal Year 2018 Appropriations Report

	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	5,200	0	5,200
1740 W Adams	0	0	0	0
Subtotal - Board of Dispensing Opticians	\$0	\$5,200	\$0	\$5,200
Optometry, State Board of	0	9,000	0	9,000
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Optometry Board	\$0	\$9,000	\$0	\$9,000
Osteopathic Examiners in Medicine and Surgery, AZ Board of	0	0	0	0
1740 W Adams	0	34,200	0	34,200
9500 Doubletree Rd.	0	0	0	0
Subtotal - Osteopathic Board	\$0	\$34,200	\$0	\$34,200
Personnel Board	0	24,700	0	24,700
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Personnel Board	\$0	\$24,700	\$0	\$24,700
Pharmacy, AZ State Board of	0	117,800	0	117,800
1616 W Adams	0	0	0	0
Physical Therapy, Board of	0	0	0	0
1740 W Adams	0	4,400	0	4,400
1400 W Washington	0	0	0	0
Podiatry Examiners, State Board of	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Podiatry Board	\$0	\$4,400	\$0	\$4,400
Private Postsecondary Education, State Board for	0	13,600	3,900	16,900
1400 W Washington	0	0	0	0
1740 W Adams	0	13,600	3,900	16,900
Subtotal - Private Postsecondary Education Board	\$0	\$13,600	\$3,900	\$16,900
Psychologist Examiners, State Board of	0	20,500	0	20,500
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Psychologist Examiners Board	\$0	\$20,500	\$0	\$20,500
Public Safety, Department of	20,100	5,300	5,600	31,000
14 N 18th Avenue	50,600	13,200	13,900	77,700
1700 W Washington	10,900	2,800	2,900	16,600
400 W Congress, Tucson	\$81,600	\$21,300	\$22,400	\$125,300
Subtotal - Department of Public Safety	202,500	0	0	202,500
Real Estate Department, State	0	19,800	0	19,800
2910 N 44th Street	0	0	0	0
Respiratory Care Examiners, Board of	0	0	0	0
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Respiratory Care Board	\$0	\$19,800	\$0	\$19,800
Revenue, Department of	116,900	59,500	0	176,400
402 W Congress, Tucson	1,501,000	773,100	0	2,274,100
1600 W Monroe	\$1,617,900	\$832,600	\$0	\$2,450,500
Subtotal - Department of Revenue	0	0	11,200	11,200
Rio Nuevo Board	0	0	0	0
400 W Congress, Tucson	77,100	0	31,600	108,700
School Facilities Board	318,600	0	0	318,600
1700 W Washington	6,000	0	0	6,000
Secretary of State - Dept of State	303,300	0	0	303,300
400 W Congress, Tucson	1,592,900	0	0	1,592,900
Records Management Addition	\$2,220,800	\$0	\$0	\$2,220,800
Polly Rosenbaum Building	0	127,800	0	127,800
Subtotal - Secretary of State - Dept of State	0	0	0	0
Transportation, Department of	0	135,800	0	135,800
1275 W Washington 3/	0	0	0	0
Treasurer, State	0	0	0	0
1700 W Washington	13,200	0	0	13,200
Tribal Relations, Governor's Office on	0	25,300	0	25,300
1700 W Washington	0	0	0	0
Veterinary Medical Examining Board, AZ State	0	0	0	0
9500 Doubletree Rd.	0	0	0	0

Fiscal Year 2019 Baseline

	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	0	0	0
1740 W Adams	0	5,300	0	5,300
Subtotal - Board of Dispensing Opticians	\$0	\$5,300	\$0	\$5,300
Optometry, State Board of	0	0	0	0
1400 W Washington	0	7,400	0	7,400
1740 W Adams	0	0	0	0
Subtotal - Optometry Board	\$0	\$7,400	\$0	\$7,400
Osteopathic Examiners in Medicine and Surgery, AZ Board of	0	23,100	0	23,100
1740 W Adams	0	0	0	0
9500 Doubletree Rd.	0	0	0	0
Subtotal - Osteopathic Board	\$0	\$23,100	\$0	\$23,100
Personnel Board	0	6,600	0	6,600
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Personnel Board	\$0	\$6,600	\$0	\$6,600
Pharmacy, AZ State Board of	0	117,800	0	117,800
1616 W Adams	0	0	0	0
Physical Therapy, Board of	0	13,700	0	13,700
1740 W Adams	0	0	0	0
1400 W Washington	0	0	0	0
Podiatry Examiners, State Board of	0	5,200	0	5,200
1740 W Adams	0	0	0	0
Subtotal - Podiatry Board	\$0	\$5,200	\$0	\$5,200
Private Postsecondary Education, State Board for	0	15,700	3,900	19,600
1400 W Washington	0	0	0	0
1740 W Adams	0	15,700	3,900	19,600
Subtotal - Private Postsecondary Education Board	\$0	\$15,700	\$3,900	\$19,600
Psychologist Examiners, State Board of	0	13,300	0	13,300
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Psychologist Examiners Board	\$0	\$13,300	\$0	\$13,300
Public Safety, Department of	20,100	5,300	5,600	31,000
14 N 18th Avenue	50,600	13,200	13,900	77,900
1700 W Washington	10,900	2,800	2,900	16,600
400 W Congress, Tucson	\$81,800	\$21,300	\$22,400	\$125,500
Subtotal - Department of Public Safety	202,500	0	0	202,500
Real Estate Department, State	0	0	0	0
2910 N 44th Street	0	0	0	0
Respiratory Care Examiners, Board of	0	0	0	0
1400 W Washington	0	9,700	0	9,700
1740 W Adams	0	0	0	0
Subtotal - Respiratory Care Board	\$0	\$9,700	\$0	\$9,700
Revenue, Department of	116,900	59,500	0	176,400
402 W Congress, Tucson	1,501,100	773,200	0	2,274,300
1600 W Monroe	\$1,618,000	\$832,700	\$0	\$2,450,700
Subtotal - Department of Revenue	0	0	11,200	11,200
Rio Nuevo Board	0	0	0	0
400 W Congress, Tucson	77,100	0	31,600	108,700
School Facilities Board	318,600	0	0	318,600
1700 W Washington	6,000	0	0	6,000
Secretary of State - Dept of State	303,300	0	0	303,300
400 W Congress, Tucson	1,593,000	0	0	1,593,000
Records Management Addition	\$2,270,500	\$0	\$0	\$2,270,500
Polly Rosenbaum Building	0	127,800	0	127,800
Subtotal - Secretary of State - Dept of State	0	0	0	0
Transportation, Department of	0	135,800	0	135,800
1275 W Washington 3/	0	0	0	0
Treasurer, State	0	0	0	0
1700 W Washington	13,200	0	0	13,200
Tribal Relations, Governor's Office on	0	25,300	0	25,300
1700 W Washington	0	0	0	0
Veterinary Medical Examining Board, AZ State	0	0	0	0
9500 Doubletree Rd.	0	0	0	0

Difference FY 2019 - FY 2018

	General Fund	Other Fund	Non-Approp	Total
1400 W Washington	0	0	0	0
1740 W Adams	0	5,300	0	5,300
Subtotal - Board of Dispensing Opticians	\$0	\$100	\$0	\$100
Optometry, State Board of	0	0	0	0
1400 W Washington	0	7,400	0	7,400
1740 W Adams	0	0	0	0
Subtotal - Optometry Board	\$0	(\$1,600)	\$0	(\$1,600)
Osteopathic Examiners in Medicine and Surgery, AZ Board of	0	23,100	0	23,100
1740 W Adams	0	0	0	0
9500 Doubletree Rd.	0	0	0	0
Subtotal - Osteopathic Board	\$0	(\$11,100)	\$0	(\$11,100)
Personnel Board	0	6,600	0	6,600
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Personnel Board	\$0	(\$18,100)	\$0	(\$18,100)
Pharmacy, AZ State Board of	0	0	0	0
1616 W Adams	0	0	0	0
Physical Therapy, Board of	0	13,700	0	13,700
1740 W Adams	0	0	0	0
1400 W Washington	0	0	0	0
Podiatry Examiners, State Board of	0	5,200	0	5,200
1740 W Adams	0	0	0	0
Subtotal - Podiatry Board	\$0	\$800	\$0	\$800
Private Postsecondary Education, State Board for	0	15,700	3,900	19,600
1400 W Washington	0	0	0	0
1740 W Adams	0	15,700	3,900	19,600
Subtotal - Private Postsecondary Education Board	\$0	\$2,100	\$600	\$2,700
Psychologist Examiners, State Board of	0	13,300	0	13,300
1400 W Washington	0	0	0	0
1740 W Adams	0	0	0	0
Subtotal - Psychologist Examiners Board	\$0	(\$7,200)	\$0	(\$7,200)
Public Safety, Department of	20,100	5,300	5,600	31,000
14 N 18th Avenue	50,600	13,200	13,900	77,900
1700 W Washington	10,900	2,800	2,900	16,600
400 W Congress, Tucson	\$81,800	\$21,300	\$22,400	\$125,500
Subtotal - Department of Public Safety	202,500	0	0	202,500
Real Estate Department, State	0	0	0	0
2910 N 44th Street	0	0	0	0
Respiratory Care Examiners, Board of	0	0	0	0
1400 W Washington	0	9,700	0	9,700
1740 W Adams	0	0	0	0
Subtotal - Respiratory Care Board	\$0	(\$10,100)	\$0	(\$10,100)
Revenue, Department of	116,900	59,500	0	176,400
402 W Congress, Tucson	1,501,100	773,200	0	2,274,300
1600 W Monroe	\$1,618,000	\$832,700	\$0	\$2,450,700
Subtotal - Department of Revenue	0	0	11,200	11,200
Rio Nuevo Board	0	0	0	0
400 W Congress, Tucson	77,100	0	31,600	108,700
School Facilities Board	318,600	0	0	318,600
1700 W Washington	6,000	0	0	6,000
Secretary of State - Dept of State	303,300	0	0	303,300
400 W Congress, Tucson	1,593,000	0	0	1,593,000
Records Management Addition	\$2,270,500	\$0	\$0	\$2,270,500
Polly Rosenbaum Building	0	127,800	0	127,800
Subtotal - Secretary of State - Dept of State	0	0	0	0
Transportation, Department of	0	135,800	0	135,800
1275 W Washington 3/	0	0	0	0
Treasurer, State	0	0	0	0
1700 W Washington	13,200	0	0	13,200
Tribal Relations, Governor's Office on	0	25,300	0	25,300
1700 W Washington	0	0	0	0
Veterinary Medical Examining Board, AZ State	0	0	0	0
9500 Doubletree Rd.	0	0	0	0

	Fiscal Year 2018 Appropriations Report			Fiscal Year 2019 Baseline			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
1740 W Adams	0	0	0	0	0	23,400	0	23,400	0	23,400	0	23,400
Subtotal -Veterinary Board	\$0	\$25,300	\$0	\$25,300	\$0	\$23,400	\$0	\$23,400	\$0	(\$1,900)	\$0	(\$1,900)
Water Resources, Department of	24,900	0	0	24,900	24,900	0	0	24,900	0	0	0	0
1802 W Jackson	\$16,432,800	\$8,494,200	\$3,012,100	\$27,939,100	\$14,795,600	\$7,175,000	\$2,514,200	\$24,484,800	(\$1,637,200)	(\$1,319,200)	(\$497,900)	(\$3,454,300)
GRAND TOTAL												

- 1/ Reflects the FY 2018 rental rates enacted by Laws 2017, Chapter 307, Section 6, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.
- 2/ Pursuant to A.R.S. § 41-792.01, agencies occupying state-owned buildings shall pay the higher of the amount reported [herein] by the Joint Legislative Budget Committee or the pro rata share based on actual occupancy.
- 3/ Represents funding for space occupied by the Attorney General - Department of Law for provision of legal services to the Department of Transportation.

Capital Outlay
Arizona Department of Transportation Building System

	FY 2019 BASELINE
BUILDING RENEWAL	
ADOT Building Renewal	4,732,300
SUBTOTAL	4,732,300
INDIVIDUAL PROJECTS	
Airport Planning and Development	18,798,500
Controlled Access Highways	103,833,000
Debt Service	144,232,000
Statewide Highway Construction	114,952,000
Local HURF Distribution	30,000,000
SUBTOTAL	411,815,500
TOTAL - ALL PROJECTS	416,547,800
FUND SOURCES	
<u>Other Appropriated Funds</u>	
Highway Expansion and Extension Loan Program Fund	30,000,000
State Aviation Fund	19,030,800
State Highway Fund	367,517,000
SUBTOTAL - Other Appropriated Funds	416,547,800
SUBTOTAL - Appropriated Funds	416,547,800
Other Non-Appropriated Funds	437,420,000
Federal Funds	914,274,000
TOTAL - ALL SOURCES	1,768,241,800

DESCRIPTION — The Arizona Department of Transportation (ADOT) Building System includes all buildings and highways controlled by ADOT. The following includes amounts for state highway construction and other projects related to ADOT's mission.

The following reflects one-time appropriations:

Building Renewal

Building Renewal

The Baseline includes \$4,732,300 in FY 2019 for Building Renewal within ADOT's Building System. This amount consists of \$4,500,000 from the State Highway Fund (SHF) and \$232,300 from the State Aviation Fund (SAF). The SHF amount is for the ADOT Building System and the State Aviation amount is for the Grand Canyon Airport.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The formula is based on the square footage and replacement cost of existing buildings. The amounts represent 34.8% funding of the revised highways building renewal formula and 89.7% funding of the aviation building renewal formula.

Individual Projects

Besides debt service, the Baseline figures in the *Individual Projects* section would fund projects based on estimated revenue available from their respective fund sources.

Airport Planning and Development

The Baseline 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.

Controlled Access Highways

The Baseline 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 Baseline 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.)

Statewide Highway Construction

The Baseline includes \$114,952,000 from SHF in FY 2019 for highway construction. Please see Table 6 for the HURF distribution analysis, which shows that \$114,952,000 of net SHF monies will be available for statewide highway construction in FY 2019 from the FY 2019 HURF revenue cash flow. Only a small portion of the state's total \$2,009,400,000 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.)

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.

Expenditure of highway construction funding is determined by the State Transportation Board, which develops a 5-year plan.

Table 1 shows the allocation of the Baseline related to highway construction.

Table 1	
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</u>
Total	\$363,017,000

Local HURF Distribution

The Baseline includes 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. This amount was included in the enacted FY 2018 budget 3-year spending plan. (Please see DPS Operating Budget for more information.)

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Individual Projects

The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph.

The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph.

The Department of Transportation shall report on or before November 1, 2018 to the ~~Joint Committee on Capital Review~~ 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.

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.

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*.

The appropriations made for statewide highway construction and airport planning and development do not lapse until the purpose for which the respective appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance.

Except as provided above 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. *(This applies to ADOT projects other than Statewide Highway Construction and Airport Planning and Development.)*

Deletion of Prior Year Footnotes
Individual Projects

The Baseline would delete the footnotes requiring JCCR review of the following FY 2018 one-time capital appropriations: 2 deicer buildings, Safford Equipment Service Shop, and the Tempe Impound Storage Yard.

The Baseline would delete the footnotes extending the non-lapsing status of ADOT's FY 2016 vehicle wash appropriation and reiterating the standard non-lapsing status for the FY 2017 vehicle wash appropriation.

Other Issues

Summary of Non-Appropriated Capital Funds

Table 2 provides a summary of non-appropriated capital expenditures. Non-appropriated capital expenditures are expected to grow 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	FY 2018	FY 2019
	Actual	Estimate	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.)*

	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.

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2019 Baseline includes \$363,017,000 for highway construction, including \$114,952,000 of net SHF monies for statewide highway construction.

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 \$130.7 million in FY 2019. Of the \$302.0 million total FY 2019 debt service amount in Table 5, only \$144.2 million is appropriated.

Highway User Revenue Fund Analysis

HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax (VLT), vehicle registration, driver's license, and others. Table 4 explains the formula distribution of HURF monies between state and local governments. Table 6 presents the overall HURF distribution for FY 2017 through FY 2019. The line in Table 6 showing net SHF Available for Statewide Highway Construction, which totals \$114,952,000 for FY 2019, does not include Maricopa

County and Pima County Controlled Access Funds, Bond Funds, Federal Funds, and Miscellaneous Funds available for construction. The line represents the amount that is available from the discretionary SHF to fund the State Transportation Board's 5-Year Plan.

Total FY 2017 HURF collections of \$1,405,448,000 were 3.6% above FY 2016. As of October 2017, HURF year-to-date collections were 2.6% higher than the prior year.

The gas tax is the primary source of HURF collections, accounting for 36% of HURF revenue in FY 2017. Gas prices remain low with the average price per gallon of regular gasoline in Arizona at \$2.40 in November 2017, or 25 cents per gallon higher than a year ago, according to the American Automobile Association.

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)			
<i>Appropriated</i>			
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	<u>62.6</u>	<u>88.5</u>	<u>115.0</u>
Total SHF - Appropriated	\$ 228.2	\$ 277.1	\$ 517.4
<i>Non-Appropriated</i>			
SHF Highway Construction ^{1/}	\$ 0.4	\$ 0.6	\$ -
Total SHF - Non-Appropriated	\$ 0.4	\$ 0.6	\$ -
Total SHF Highway Construction Expenditures	\$ 228.6	\$ 277.7	\$ 517.4
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	<u>100.4</u>	<u>99.2</u>	<u>133.0</u>
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	<u>0.0</u>	<u>65.0</u>	<u>10.0</u>
Total Bond Proceeds Highway Construction Expenditures	\$ 140.8	\$ 72.0	\$ 210.0
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 14.5	\$ 10.0	\$ 10.0
Total Local Agency Deposits Fund	\$ 14.5	\$ 10.0	\$ 10.0
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	<u>14.5</u>	<u>10.0</u>	<u>10.0</u>
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 14.5	\$ 10.0	\$ 10.0
Total Highway Construction Expenditures	<u>\$ 1,381.3</u>	<u>\$ 1,660.4</u>	<u>\$ 2,009.4</u>
Total Debt Service			
SHF	\$ 155.9	\$ 130.4	\$ 144.2
Federal Aid	17.6	25.5	24.8
MRARF	<u>100.4</u>	<u>99.2</u>	<u>133.0</u>
Total Debt Service	\$ 273.9	\$ 255.1	\$ 302.0 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 72.7	\$ 147.3	\$ 373.2
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	<u>14.5</u>	<u>10.0</u>	<u>10.0</u>
Total Cash Highway Construction Expenditures	\$ 1,107.4	\$ 1,405.3	\$ 1,707.4
Total Highway Construction Expenditures	<u>\$ 1,381.3</u>	<u>\$ 1,660.4</u>	<u>\$ 2,009.4</u>

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$144,232,000 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 <u>Actual</u>	FY 2018 <u>Estimate</u>	FY 2019 <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	650
Dept. of Public Safety Transfer from HURF ^{3/}	96,006	99,399	99,399
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	\$1,279,818	\$1,320,245	\$1,374,945
Less:			
Cities ^{5/}	390,344	402,675	419,358
Counties ^{5/}	243,165	250,847	261,240
VLT Transfer to Parity Compensation Fund ^{6/}	3,162	3,420	3,634
VLT Transfer to General Fund (5-Year VLT) ^{7/}	1,647	1,800	1,800
VLT Transfer to General Fund (Abandoned Vehicle) ^{8/}	5,505	5,300	5,800
Controlled Access ^{9/}	<u>96,671</u>	<u>99,743</u>	<u>103,833</u>
Net SHF (Discretionary)	\$ 539,324	\$ 556,460	\$ 579,280
Plus:			
Other Income ^{10/}	65,994	74,600	79,277
Less:			
Operating Budget ^{11/}	335,181	361,131	352,793
Dept of Public Safety Transfer from Highway Fund ^{12/}	7,302	8,714	7,581
Capital Outlay	2,345	5,340	0
Local Assistance ^{13/}	3,185	0	0
Building Renewal	4,000	4,500	4,500
Motor Vehicle Third Party Payments ^{14/}	29,659	31,900	33,899
Miscellaneous	5,155	600	600
Debt Service ^{15/}	<u>155,935</u>	<u>130,385</u>	<u>144,232</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{16/}	\$ 62,556	\$ 88,490	\$ 114,952
SHF Adjustments			
Plus:			
Controlled Access SHF Beginning Balance	379,171	420,255	430,504
STAN Account Beginning Balance	991	614	0
Total SHF Available for Statewide Highway Construction	\$ 442,718	\$ 509,359	\$ 545,456

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2017 amount of \$649,700 includes \$(3,000) for statewide adjustments. The FY 2018 amount of \$656,100 includes \$6,400 for statewide adjustments.

^{3/} The FY 2017 amount of \$96,006,100 includes \$(403,100) for statewide adjustments. The FY 2018 amount of \$99,398,700 includes no funding for statewide adjustments.

^{4/} The FY 2016 Revenue BRB (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the DPS budget. In addition, local governments received a second \$30 million in FY 2017 - FY 2019. The second \$30 million was not distributed through HURF, but as a separate allocation. The source of the second \$30 million was as follows: General Fund, FY 2017; Highway Expansion and Extension Loan Program Fund, FY 2018 - FY 2019. The second \$30 million distribution is not reflected in this chart.

^{5/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{6/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{7/} A.R.S § 28-5808E transfers the SHF share of the HURF VLT to the state General Fund that is generated from the difference between a 2-year registration and a 5-year registration.

^{8/} A.R.S § 28-5808D also transfers the SHF share of the HURF VLT to the state General Fund that is equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B to the state General Fund.

^{9/} A statutorily defined distribution of SHF monies for design, acquisition and construction of controlled access highways. The monies are divided 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

^{10/} Includes interest and rental income, transfers from the Public Roads Fund, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2017 amount of \$65,994,000 includes \$65,344,300 in miscellaneous revenue and \$649,700 for the Registration Compliance program. The FY 2018 estimate of \$74,600,000 includes \$73,943,900 in miscellaneous revenue and \$656,100 for the Registration Compliance program. The FY 2019 estimate of \$79,277,000 includes \$78,627,300 in miscellaneous revenue and \$649,700 for the Registration Compliance program.

^{11/} The FY 2018 amount of \$361,130,800 includes \$4,207,700 for statewide adjustments.

^{12/} The FY 2017 amount of \$7,301,800 includes \$(29,500) for statewide adjustments. The FY 2018 amount of amount of \$8,713,500 includes \$1,132,600 for statewide adjustments.

^{13/} This amount is for distribution as follows: With allocations as prescribed in A.R.S § 28-6540, 1) To the counties, 33.231%. 2) To the incorporated cities and towns, 48.097%. 3) To incorporated cities with a population of 300,000 or more persons, 5.247%, and with allocations as prescribed in A.R.S § 28-6538B, 4) To counties with a population of more than 800,000 persons, 13.425%. This amount may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto. (Capital Outlay Bill footnote)

^{14/} Statutory payments to third parties from VLT collected by third parties

^{15/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{16/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Capital Outlay
Arizona Board of Regents Building Systems

FY 2019
 BASELINE

BUILDING RENEWAL
 Arizona Board of Regents
TOTAL - ALL PROJECTS

0
 0

FUND SOURCES
 General Fund
TOTAL - ALL SOURCES

0
 0

DESCRIPTION — The Arizona Board of Regents (ABOR) Building System is comprised of buildings controlled by 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 Baseline includes no funding for Building Renewal in the ABOR Building System.

One-Time Funding

Section 131 of the FY 2018 General Appropriation Act appropriated \$15,000,000 to the universities from the

General Fund in FY 2018 for one-time operating expenditures or capital improvements. Of this amount, \$7,639,500 was appropriated to ASU, \$3,202,800 was appropriated to NAU, and \$4,157,700 was appropriated to UA.

A General Appropriation Act footnote requires JCCR review for any of these monies that are used for capital projects. The JCCR favorably reviewed NAU's plan to use its one-time monies for capital improvements including lab renovations and underground utilities.

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 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 \$316,353,700. The debt service payments made by each of the universities would be as follows:

ASU (all campuses)	\$145,394,200
NAU	41,005,400
UA (all campuses)	<u>129,954,100</u>
Total	\$316,353,700

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 \$233,258,900.

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.

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.)*

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>
Subtotal		\$376,000,000	\$276,245,000	\$259,020,000	\$116,980,000	0
School of Construction	ASU	\$ 16,000,000	\$ 16,000,000	\$ 14,520,000	\$ 1,480,000	0
Building Renewal/ New Construction	ASU	\$136,000,000	\$137,653,000 ^{1/}	\$127,835,000	\$ 8,165,000	0
	NAU	136,000,000	136,015,000 ^{1/}	132,500,000	3,500,000	0
	UA	<u>136,000,000</u>	<u>145,050,000</u> ^{1/}	<u>134,835,000</u>	<u>1,165,000</u>	<u>0</u>
Subtotal		<u>\$408,000,000</u>	<u>\$418,718,000</u>	<u>\$395,170,000</u>	<u>\$ 12,830,000</u>	<u>0</u>
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/}

		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Projected Lottery Revenue to UCI Fund ^{2/}		\$ 46,285,600	\$ 60,644,800	\$ 68,103,300	\$ 79,605,300	\$ 89,555,600
Building Renewal Projects						
Lottery Debt Service	80%	\$ 25,699,800	\$ 25,697,100	\$ 25,693,000	\$ 25,687,300	\$ 25,682,200
University Debt Service	20%	<u>6,424,900</u>	<u>6,424,300</u>	<u>6,423,300</u>	<u>6,421,800</u>	<u>6,420,600</u>
Total Debt Service for \$395.2 M		\$ 32,124,700	\$ 32,121,400	\$ 32,116,300	\$ 32,109,100	\$ 32,102,800
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 13,460,100	\$ 13,451,600	\$ 13,447,600	\$ 13,446,800	\$ 13,434,600
University Debt Service	20%	<u>3,365,000</u>	<u>3,362,900</u>	<u>3,361,900</u>	<u>3,361,700</u>	<u>3,358,600</u>
Total Debt Service for \$259.0 M ^{3/4/}		\$ 16,825,100	\$ 16,814,500	\$ 16,809,500	\$ 16,808,500	\$ 16,793,200
ASU School of Construction						
Lottery Debt Service	80%	\$ 767,100	\$ 767,100	\$ 766,800	\$ 768,000	\$ 764,600
University Debt Service	20%	<u>191,800</u>	<u>191,800</u>	<u>191,600</u>	<u>192,000</u>	<u>191,200</u>
Total Debt Service for \$14.5 M		\$ 958,900	\$ 958,900	\$ 958,400	\$ 960,000	\$ 955,800
Total Lottery Share at 80% ^{4/5/}		\$ 39,927,000	\$ 39,915,800	\$ 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

^{1/} Represents JCCR reviewed projects and issuances. The 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/} This amount consists of: 1) \$122,245,000 issued by UA in 2010 for Phase I of the Phoenix Biomedical Campus; 2) \$7,475,000 issued by NAU and \$8,600,000 by UA in 2013 for shell space and 3) \$120,700,000 issued by UA in 2014 for the Bioscience Partnership Building.

^{4/} 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.*)

After all lottery revenue beneficiaries receive their statutory distributions, the UCI Fund receives its distribution before any remaining monies are deposited to the General Fund. The Joint Legislative Budget Committee (JLBC) Staff estimates that the UCI Fund could receive as much as \$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 a summary of the payment schedule for the Phoenix Biomedical Campus, ASU School of Construction and building renewal projects if the maximum of 80% of the debt service was paid from Lottery funds. These amounts are based on the FY 2019 Baseline Lottery revenue forecast and ABOR debt service estimates from October 2017.

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
Hayden Library Renovation ^{3/}	\$ 35,000,000	\$864,600	Approved	FY 2043
Health Solutions Innovation Center (Mayo)	75,000,000	--	FY 2018	--
Interdisciplinary Science/Technology Building (ISTB) 7	<u>175,000,000</u>	--	FY 2019	--
ASU Subtotal ^{4/}	\$285,000,000			
Multi-Discipline STEM Academic/Research Building	\$139,000,000	--	FY 2019	--
Science Annex Renovation	<u>17,400,000</u>	--	FY 2019	--
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/}	\$825,400,000			

^{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. Also includes the Hayden Library Renovation project, which was approved at the December 2017 JCCR meeting.

^{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.

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.

Under the law, each university's General Fund appropriation will be deposited into a newly-created capital infrastructure fund (CIF). Each university will match any General Fund contributions to its fund that are used for debt service payments at a 1:1 rate.

Debt service payments made on CIF funded projects will be included in the statutory debt limit. *(Please see University Debt Ratio Policy for more information.)*

Any cash-based capital projects funded with CIF monies must be reviewed by the Joint Committee on Capital Review, and any debt-financed projects funded with CIF monies must be approved by the Committee. The Committee must hear and review, approve, or disapprove, as applicable, each CIF funded project by its second meeting after the request date.

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 December 31, 2017, the universities have 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 above, 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.

Capital Outlay
Debt and Lease-Purchase Financing

FY 2019
 BASELINE

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing

84,112,000

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 Baseline 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.

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes

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.

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.

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 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

Lease-Purchase Summary	Overall Balance	1/ GF Balance	Overall FY 19 Payment	2/ FY 19 GF Payment	Retirement FY
ADOA Building System					
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
Subtotal - ADOA	\$ 990,610,000	\$ 965,055,000	\$ 139,344,200	\$ 128,773,300	
School Facilities Board					
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
Subtotal - SFB	\$ 366,510,000	\$ 366,510,000	\$ 134,287,300	\$ 134,287,300	
ABOR Building System					
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
Subtotal - ABOR	\$ 568,044,000	\$ 305,335,000	\$ 83,094,800	\$ 33,625,900	
Phoenix Convention Center 4/5/	\$ 256,724,900	\$ 256,724,900	\$ 22,996,300	\$ 22,996,300	FY 44
TOTAL - Lease-Purchase	\$ 2,181,888,900	\$ 1,893,624,900	\$ 379,722,600	\$ 319,682,800	
Bonding Summary					
School Facilities Board					
Proposition 301	\$ 62,865,000	\$ -	\$ 64,121,400	\$ -	FY 20
Department of Transportation 6/	\$ 1,442,250,000	\$ -	\$ 169,070,000 7/	\$ -	FY 14 - 38
ABOR Building System					
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 8/	-	49,884,200	-	FY 48
University Infrastructure (2017) 9/	53,000,000	-	2,619,600	1,309,800	FY 43
Subtotal - ABOR	\$ 2,825,235,000	\$ -	\$ 233,259,100	\$ 1,309,800	
Lottery Revenue Bond	\$ 290,535,000	\$ -	\$ 37,502,900	\$ -	FY 29
TOTAL - Bonding	\$ 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/ These obligations will be repaid with foregone General Fund revenues.
- 5/ The Convention Center debt service will eventually increase over a number of years to a maximum of \$30,000,000. Monies are given to the city to pay this portion of the lease-purchase payment. Laws 2015, Chapter 10 made a technical change to conform the debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified by Laws 2011, Chapter 28 to conform to the actual debt service payments.
- 6/ Includes \$1,280,830,000 for Highway User Revenue Fund bonds and \$161,420,000 for Grant Anticipation Notes.
- 7/ Future debt service schedule is: FY 2020 - \$176,277,000; FY 2021 - \$182,131,000; FY 2022 - \$203,818,000.
- 8/ 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.)*
- 9/ 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 General Fund debt service.

Capital Outlay
Local Assistance

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
DISTRIBUTIONS			
Phoenix Convention Center	20,449,000	22,499,000	22,996,300
Rio Nuevo District	13,988,500	14,000,000	14,000,000
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 Baseline 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 Baseline 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 Baseline 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 enacted budget. The FY 2019 Baseline 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 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.

Statute permits the district 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. 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. Debt service on the remaining balance is scheduled to be completed in FY 2025.

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).

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	5,081,197
Total	\$152,411,821

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.

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes

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.

Pursuant to A.R.S. § 42-5031, a portion of 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.

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 ^{1/}
(\$ in Millions)

<u>Year ^{2/}</u>	<u>Gross Revenue</u>	<u>Debt Service</u>	<u>Annual Net Revenues ^{3/}</u>	<u>Cumulative Net Revenues</u>
2016	\$ 20.6	\$ 20.4	\$ 0.2	\$ 50.4
2015	20.5	20.4	0.1	50.2
2014	15.0	20.4	(5.5)	50.1
2013	9.1	20.4	(11.3)	55.6
2012	13.6	5.6	8.0	66.9
2011	15.4	0.0	15.4	58.9
2010	14.7	10.0	4.7	43.5
2009	17.3	5.0	12.3	38.8
2004-2008	26.4	0.0	26.4	26.4

^{1/} Amounts may not add to annual and cumulative net revenue totals in some years due to rounding.
^{2/} 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.
^{3/} 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)*

REVENUE FORECAST

GENERAL FUND REVENUE

FY 2018

FY 2018 General Fund Baseline revenues are projected to be \$9.81 billion. As indicated in *Table 1*, the revised FY 2018 revenue estimate is \$(45.0) million lower than the estimate from the FY 2018 budget enacted in May 2017.

Table 1	
FY 2018 Revenue Forecast	
(\$ in Millions)	
Adopted FY 2018 Revenue Estimate	\$ 9,852.6
Revision to Revenue Forecast	\$ (45.0)
Revised FY 2018 Revenue Estimate	\$ 9,807.6

The Baseline Revenue projection is \$(45.0) million below the original forecast primarily due to:

- A decrease of \$(23.9) million in ongoing revenues under the updated January consensus forecast.
- A decrease of \$(1.0) million associated with revisions to tax law estimates.
- A \$(20.1) million decrease in the balance forward from FY 2017. The original budget assumed an ending balance of \$171.0 million for FY 2017 while the actual balance carried forward was \$150.9 million.

Current year base revenue estimates are based on the consensus forecasting process (see *FY 2019 section below*). “Base Revenues” reflect the underlying growth in the economy and do not include one-time adjustments, urban revenue sharing or new tax law changes. *Table 2* shows the base revenue growth rates in FY 2018 through FY 2021 for the “Big 4” General Fund revenue sources (sales, individual income, corporate income and insurance premium tax) provided by each of the components comprising the 4-sector consensus forecast.

Based on the weighted average of the components of the 4-sector consensus forecast, “Big 4” General Fund revenue would grow by 4.6% in FY 2018. After adjusting for small revenue categories, the base revenue growth rate is 4.3%. After including tax law changes, one-time revenues, Urban Revenue Sharing, and the carry-forward balance, overall revenues are projected to increase 0.2% in FY 2018.

The individual revenue detail for FY 2018 is found in *Table 6* at the end of this section.

FY 2019 and Beyond

The FY 2019 JLBC Baseline forecasted total net revenues of \$9.95 billion represents 1.4% growth above FY 2018. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenue is projected at \$10.70 billion. This amount reflects a base revenue increase of 3.6% compared to FY 2018. Base revenue growth is projected at 3.7% for sales, 3.5% for individual income, 3.4% for corporate income and 2.6% for insurance premium tax.

The FY 2019 Baseline also incorporates revenue planning estimates for FY 2020 and FY 2021, which are shown in *Table 7*. Under the consensus estimates, base revenue would increase by 4.3% in FY 2020 and 4.5% in FY 2021.

The Baseline 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 of January 2018. Consisting of 14 public and private sector economists, this independent panel meets 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund Baseline model. The model is a simultaneous-equation model consisting of more than 100 equations that are updated on a regular basis to reflect changes in the economy. The model uses more than 200 variables related to Arizona’s economy and is updated quarterly.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

The growth rates from each sector of the forecast for FY 2018 through FY 2021 are detailed in *Table 2*.

Risks to the Revenue Forecast

Growth in state revenue always faces uncertainty. Much of the large upside and downside risks to the forecast continue to reflect the uncertainty regarding future federal policy, as described more in this section. Recent strength in national and international economic performance, though, may reflect an easing of near-term macroeconomic risks to the state forecast. The Federal Reserve Bank (Fed) indicated in recent statements

Table 2

4-Sector Estimates
Forecast Percentages (FY 2018 - FY 2021)
Base Revenue ^{1/}

	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>
Sales Tax	4.5%	3.9%	4.7%	4.5%	4.4%	3.9%	1.7%	4.8%	4.2%	3.7%
Individual Income Tax	4.5%	4.2%	6.1%	5.6%	5.1%	3.9%	0.9%	4.4%	4.6%	3.5%
Corporate Income Tax	(1.1%)	3.9%	4.5%	4.3%	2.9%	2.5%	0.5%	4.6%	7.7%	3.4%
Insurance Premium Tax	3.4%	2.7%	2.7%	3.4%	3.0%	3.4%	1.3%	1.5%	4.1%	2.6%
Overall ^{2/}	3.9%	3.7%	4.8%	4.6%	4.3%	3.9%	1.5%	4.5%	4.4%	3.6%
	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>
Sales Tax	4.0%	4.0%	5.2%	4.1%	4.3%	4.3%	4.8%	4.5%	4.0%	4.4%
Individual Income Tax	3.7%	4.4%	5.4%	5.3%	4.7%	4.0%	5.6%	5.0%	5.2%	4.9%
Corporate Income Tax	(1.4%)	2.7%	3.6%	4.2%	2.4%	5.3%	9.4%	4.6%	3.0%	5.5%
Insurance Premium Tax	3.1%	1.4%	1.5%	3.8%	2.5%	3.3%	1.3%	1.8%	3.8%	2.6%
Overall ^{2/}	3.7%	4.0%	5.0%	4.6%	4.3%	4.1%	5.0%	4.6%	4.5%	4.5%

^{1/} Prior to any tax law or other revenue changes.

^{2/} The growth rates for each sector represent the weighted average of Big-4 revenue estimates plus JLBC Staff estimates of other base revenue categories.

that "economic growth appears to have stepped up", "has been rising at a solid rate", and is expected to "continue to expand". The Organization for Economic Co-operation and Development estimates that worldwide economic growth accelerated 0.5% in 2017 while the International Monetary Fund expects that the upswing has reduced global financial risks.

Some of the risks to the revenue forecast include:

Unforeseen Natural Disasters and Geopolitical Events – Hurricanes Harvey, Irma, and Maria are recent examples of events that would affect the national economy during the forecast cycle.

International Economics – The level of U.S. and Arizona trade with Canada and Mexico may be impacted by the outcome of renegotiations of the North American Free Trade Agreement (NAFTA). Since August 2017, the 3 countries have conducted several rounds of U.S.-initiated

negotiations to modify the 1994 deal. The Trump administration has released objectives for the negotiations, including increased rules of origin requirements and a 5-year renewal or sunset of the agreement. The President has indicated that the U.S. would withdraw from NAFTA if terms of the agreement are not satisfactorily renegotiated. The impact of the renegotiation on Arizona would depend on what changes are made to the existing agreement. Of Arizona's \$22.0 billion in exports in 2016, \$10.4 billion (47%) were shipped to NAFTA members.

Federal Tax Policy Uncertainty – Major federal tax reforms were enacted on December 22, 2017. The changes will reduce the overall federal tax burden to businesses and individuals through reductions to federal income tax rates, partly offset by a net expansion of the federal income tax base. Federal reforms have potential to impact state revenues through tax code conformity and economic activity.

State Conformity

State definitions of income and various deductions used in determining state individual income and corporate income tax largely conform to federal definitions. When the federal government changes these definitions, the state needs to determine whether to adopt the federal changes.

The effective date for most provisions of the recently enacted federal reform is January 1, 2018. While taxpayers may begin adjusting their tax payments for the federal changes during the second half of FY 2018, much of the state impact is not expected to occur until FY 2019. The timing of impacts to state collections will also depend on the timing of Arizona conformity to federal provisions.

Dynamic Impacts

Any increase in economic activity resulting from the federal tax reductions could have a “dynamic impact” in the sense of increasing state tax dollars. Expansionary fiscal policy in the form of reduced federal taxes will increase economic growth in the short run. The extent of this growth will depend on how tax reductions are allocated among taxpayers and how they use the additional income. Over time, the stimulus will also likely increase federal budget deficits and inflation. This could require contractionary fiscal and monetary policies that slow economic growth in later years.

Due to the factors described above, the dynamic impact that federal tax changes will have on the national economy (and the related impact on the state economy and state revenue collections) is highly uncertain. Depending on the source of the estimates, the projected dynamic impact varies widely. Given the outsized burden of federal compared to state income taxes, most dynamic impacts will occur regardless of state conformity decisions.

Federal Health Policy Uncertainty – Changes to the federal Affordable Care Act (ACA) could reduce state insurance premium tax collections. The recently enacted federal tax reform bill included a provision to eliminate the federal penalty levied on individuals that do not have health insurance. Without a penalty, some currently insured individuals will not obtain insurance.

Following the January 1, 2014 effective date for most ACA provisions, the share of Arizona's population with health insurance increased from 82.9% in 2013 to 90.0% in 2016. State insurance premium tax revenues grew 26.8% from FY 2013 to FY 2016, with most gains coming from health insurance lines.

Monetary Policy Uncertainty – The Federal Reserve Bank (Fed) could face challenges in pursuing its dual mandates of promoting full employment and moderate inflation. While the U.S. unemployment rate of 4.1% in November 2017 was the lowest since January 2001, core inflation of 1.4% in October 2017 was well below the Fed's 2% target. If inflation is set to rise soon, as outgoing Fed Chair Janet Yellen expects, continuing to increase short-term interest rates could help avert asset bubbles and excessive risk-taking. Low inflation could be set to continue, though, in which case keeping interest rates low may support the current economic expansion. There is a risk that if the timing and pace of hikes to short-term interest rates are poorly executed, the current economic expansion could stall and the economy could go into recession. Fed decisions could be further complicated by any effect that fiscal stimulus from federal tax cuts may have on inflation.

Average Length of Expansion – Since 1945, the average length of a U.S. economic expansion has been approximately 5 years and the longest has been 10 years. The current expansion has lasted over 8 years, which makes it the third longest expansion during that time. While there is no natural length of time for sustained periods of economic activity, if historical averages were to hold true, the U.S. economic expansion will end at some point within the forecast range.

Revenue Adjustments

Table 3 provides an overview of base revenue growth rates for FY 2018 and FY 2019 with budget legislation changes (which include numerous tax law changes and revenue adjustments described in more detail in *Table 4*) and one-time financing sources.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that affect the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of *Table 3*, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by \$(118.2) million in FY 2018. As noted above, the FY 2018 base revenue growth of 4.3% excludes these changes. The Baseline assumes a base revenue growth of 3.6% in FY 2019. Actual General Fund revenue, which includes the impact of prior budget legislation, urban revenue sharing and one-time financing sources, is

Table 3
General Fund Revenue Baseline
For FY 2018 and FY 2019 Budget
(\$ in Millions)

	FY 2018	%	FY 2019	%
Base Revenue	\$10,329.3 ^{1/}	3.1%	\$10,697.5	3.6%
Prior Budget Legislation	N/A		(75.3)	
Urban Revenue Sharing	(680.8)		(674.8)	
One-Time Financing Sources:				
Balance Forward	150.9		0.0	
Fund Transfers	8.2		0.0	
Subtotal	159.1		0.0	
Adjusted Revenue	<u>\$9,807.6</u>	0.2%	<u>\$9,947.4</u>	1.4%

^{1/} The FY 2018 Base Revenue of \$10.3 billion includes \$(118.2) million in ongoing tax law and revenue changes. Adjusting for these changes, the FY 2018 base increase is 4.3%.

estimated to increase by 0.2% in FY 2018 and 1.4% in FY 2019.

The following section provides a detailed description of prior year budget legislation that has an ongoing revenue impact in FY 2018 through FY 2021 (see *Table 4* for a complete list of each of the tax law and revenue changes affecting collections in FY 2018 through FY 2021). As shown in *Table 4*, 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 4* are stated relative to the prior year.

Each of the previously enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in *Table 5*.

1) **Corporate School Tuition Tax Credit** – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14 established a cap on this credit of \$5 million per year. Laws 2006, Chapter 325 increased the credit cap to \$10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap within the first few weeks of each fiscal year from FY 2013 through FY 2017. In FY 2018, we have begun to see lower growth in tax credit

usage. 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.

Although Laws 2006, Chapter 325 provides that the credit cap be increased by 20% in FY 2020, followed by an additional 20% increase in FY 2021, corporations are not expected (in the aggregate) to increase their credit donations beyond FY 2019 levels. By this time, the full tax impact of previously enacted multi-year rate reductions has been realized. For this reason, businesses are not expected to have sufficient tax liability to fully utilize the increased credit-eligible donation limits provided by Chapter 325.

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 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 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) 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. In terms of the impact relative to the prior year, Chapter 117 results in General Fund reduction of \$(2.0) million in FY 2018. (See Laws 2017, Chapter 305 below for additional changes.)

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. Chapter 343 is estimated to reduce individual income tax revenue by \$(8.0) million in FY 2018.

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 – Under current law, the state levies an assessment on each consortium of public service corporation engaged in operating a commercial nuclear generating station. In practice, the assessment is only paid by the Palo Verde nuclear plant. The monies collected from the assessment are deposited in the General Fund. The Legislature then appropriates these monies to the Nuclear Emergency Management Fund (NEMF) for nuclear emergency response purposes.

Beginning in FY 2018, Laws 2017, Chapter 43 redirects the deposit of the nuclear generating station assessment from the General Fund to NEMF. Chapter 43 also provides that the monies for nuclear emergency response purposes be appropriated directly from NEMF. The amount of the assessment that will be appropriated from NEMF in FY 2018 is \$2.5 million. This means that Chapter 43 has the effect of reducing General Fund revenue by \$(2.5) million, beginning in FY 2018.

11) ADA Retrofits Subtraction – Law 2017, Chapter 278 permits a business to subtract for income tax purposes the entire amount of business access expenditures incurred in the taxable year to retrofit property in order to comply with the federal Americans with Disabilities Act of 1990 (ADA). For state income tax purposes, Chapter 278 has the effect of accelerating the depreciation of such property to 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) Reduction of Ongoing Judiciary Transfers – 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 by \$(400,000) annually, beginning in FY 2018. As a result, the total amount of Judiciary fund transfers to the General Fund was reduced from \$3.0 million to \$2.6 million in FY 2018.

15) 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.

16) 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.

17) 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.

18) 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.

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net individual and corporate income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will 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 7*, 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 FY 2021, respectively.

One-Time Financing

As shown in *Table 5*, one-time financing sources are included in the budget for FY 2018. The following is a discussion of the one-time financing sources.

FY 2018

The \$159.1 million in one-time financing sources for FY 2018 includes:

Fund Transfers

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires a transfer of \$8,172,700 to the General Fund from the monies received by the Attorney General (AG) pursuant to a settlement with Moody's Corporation, Moody's Investor Service, Inc., and Moody's Analytics, Inc. The AG along with 20 other states and the District of Columbia brought a lawsuit against Moody's alleging that the company had misrepresented the creditworthiness of mortgage-backed securities in the period leading up to the Great Recession. As a result of the settlement, the AG received \$12,672,728 of which \$2,000,000 was allocated to attorney's fees and \$2,500,000 as restitution to victims. The remaining \$8,172,728 is transferred to the General Fund in FY 2018.

Balance Forward

The FY 2017 General Fund ending balance carried forward into FY 2018 was \$150.9 million.

FY 2019 – FY 2021

Under current budget projections, the General Fund would have a cash shortfall of \$(20.4) million in FY 2018 and \$(108.2) million in FY 2019. These shortfalls are presumed to be solved as part of the FY 2019 budget process. For this reason, no one-time financing sources are currently included for FY 2019, FY 2020 and FY 2021, as reflected in *Table 5*.

Table 4

Prior Year Budget Legislation with Ongoing Revenue Impact in FY 2018 through FY 2021
(\$ Millions) ^{1/ 2/}

<u>Prior Year 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</u>				
5) Provides ongoing Judiciary fund transfers to General Fund ^{4/}	(2.0)	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. 305</u>				
14) Reduces ongoing Judiciary transfers ^{6/}	(0.4)	0.0	0.0	0.0
<u>Laws 2017, Ch. 319</u>				
15) 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>				
16) Diverts real estate appraisal fee to General Fund	0.7	0.0	0.0	0.0

<u>Prior Year 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. 335</u>				
17) Redirects fees from General Fund to the Arizona Department of Housing, beginning in FY 2018.	(1.0)	0.0	0.0	0.0
<u>Laws 2017, Ch. 340</u>				
18) Modifies eligibility requirements for job tax credit and extends credit through FY 2025 ^{7/}	0.0	(0.8)	(0.9)	(0.8)
Revenue Impact over Prior Year	\$(118.2)	\$(75.3)	\$(6.4)	\$(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/} Subsequently modified by Laws 2017, Chapter 305 (item 14).</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/} The amount of Judiciary fund transfers authorized by Laws 2016, Chapter 117 was reduced by Laws 2017, Chapter 305.</p> <p>^{7/} 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>				

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Balance Forward	\$ 150.9	--	--	--
Fund Transfers	<u>8.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total One-Time Financing	<u>\$159.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>

Table 6

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%	4,690,237.9	4.1%	184,076.9	4,861,972.5	3.7%	171,734.5
Income - Individual	4,130,898.7	4.1%	4,325,477.3	4.7%	194,578.5	4,475,133.7	3.5%	149,656.4
- Corporate	368,136.4	-35.5%	305,451.8	-17.0%	(62,684.6)	315,691.1	3.4%	10,239.2
Property	32,538.5	-15.4%	32,466.4	-0.2%	(72.1)	33,772.0	4.0%	1,305.6
Luxury - Tobacco	22,935.1	-8.1%	23,155.5	1.0%	220.3	22,933.9	-1.0%	(221.6)
- Liquor	34,703.2	1.8%	35,314.4	1.8%	611.2	35,885.6	1.6%	571.2
Insurance Premium	504,339.3	2.8%	510,367.6	1.2%	6,028.3	523,500.0	2.6%	13,132.4
Other Taxes	2,740.7	-65.6%	941.7	-65.6%	(1,799.0)	988.8	5.0%	47.1
Subtotal - Taxes	9,602,453.1	1.6%	9,923,412.6	3.3%	320,959.6	10,269,877.5	3.5%	346,464.9
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%	39,987.2	4.0%	1,550.7	41,098.0	2.8%	1,110.8
Interest	17,001.0	26.0%	19,036.0	12.0%	2,035.0	21,799.0	14.5%	2,763.0
Sales and Services	42,062.1	-1.5%	41,660.8	-1.0%	(401.3)	40,935.2	-1.7%	(725.6)
Other Miscellaneous	83,890.5	-9.4%	79,814.4	-4.9%	(4,076.2)	80,039.0	0.3%	224.6
Transfers and Reimbursements	64,129.5	-22.4%	47,294.1	-26.3%	(16,835.4)	58,332.9	23.3%	11,038.8
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%	405,907.1	-3.0%	(12,624.6)	427,669.7	5.4%	21,762.6
Subtotal On-Going Revenue	10,020,984.8	1.5% 1/	10,329,319.8	3.1% 2/	308,335.0	10,697,547.2	3.6%	368,227.5
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(75,296.2)	N/A	(75,296.2)
Subtotal w/Tax Law Changes	10,020,984.8	1.5%	10,329,319.8	3.1%	308,335.0	10,622,251.0	2.8%	292,931.3
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%	9,648,549.7	3.1%	291,147.1	9,947,446.6	3.1%	298,896.9
One-Time Financing Sources:								
Fund Transfers	145,091.5	-34.1%	8,172.7	-94.4%	(136,918.8)	0.0	-100.0%	(8,172.7)
Subtotal - One-Time Financing Sources	145,091.5	-34.1%	8,172.7	-94.4%	(136,918.8)	0.0	-100.0%	(8,172.7)
Subtotal - Revenues	9,502,494.1	0.2%	9,656,722.4	1.6%	154,228.3	9,947,446.6	3.0%	290,724.2
Balance Forward	284,015.0	-9.1%	150,871.0	-46.9%	(133,144.0)	0.0	-100.0%	(150,871.0)
Total - Resources	9,786,509.1	-0.1%	9,807,593.4	0.2%	21,084.3	9,947,446.6	1.4%	139,853.2

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 3.1% FY 2018 increase includes \$(118.2) million in tax law changes. Adjusting for these changes, the base FY 2018 increase is 4.3%.

Table 7

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	5,072,053.9	4.3%	210,081.4	5,295,663.8	4.4%	223,610.0
Income - Individual	4,677,661.4	4.5%	202,527.7	4,908,217.9	4.9%	230,556.5
- Corporate	264,513.2	-16.2%	(51,177.9)	278,116.4	5.1%	13,603.1
Property	35,137.5	4.0%	1,365.5	36,565.7	4.1%	1,428.2
Luxury - Tobacco	22,718.1	-0.9%	(215.8)	22,508.2	-0.9%	(209.9)
- Liquor	36,632.7	2.1%	747.1	37,401.4	2.1%	768.7
Insurance Premium	525,617.8	0.4%	2,117.8	534,354.5	1.7%	8,736.7
Other Taxes	1,038.2	5.0%	49.4	1,090.1	5.0%	51.9
Subtotal - Taxes	10,635,372.7	3.6%	365,495.2	11,113,918.0	4.5%	478,545.3
Other Non-Tax Revenues:						
Lottery	101,842.8	12.7%	11,509.8	111,813.8	9.8%	9,971.0
Licenses, Fees and Permits	42,512.4	3.4%	1,414.4	43,987.4	3.5%	1,475.0
Interest	27,575.7	26.5%	5,776.7	27,906.6	1.2%	330.9
Sales and Services	41,502.1	1.4%	566.9	41,772.4	0.7%	270.3
Other Miscellaneous	77,250.6	-3.5%	(2,788.4)	79,017.2	2.3%	1,766.7
Transfers and Reimbursements	58,624.8	0.5%	291.9	63,564.7	8.4%	4,939.9
Disproportionate Share Revenue	95,132.7	0.0%	0.0	95,132.7	0.0%	0.0
Subtotal - Other Non-Tax	444,441.1	3.9%	16,771.4	463,194.9	4.2%	18,753.7
Subtotal On-Going Revenue	11,079,813.9	3.6% ^{3/}	382,266.6	11,577,112.9	4.5% ^{4/}	497,299.0
Previously Enacted Tax Law Changes	(6,433.3)	N/A	68,862.9	(5,800.0)	N/A	633.3
Subtotal w/Tax Law Changes	11,073,380.6	4.2%	451,129.5	11,571,312.9	4.5%	497,932.3
Urban Revenue Sharing (URS)	(694,639.4)	N/A	(19,834.9)	(708,904.3)	N/A	(14,264.9)
Subtotal w/Tax Law Changes/URS	10,378,741.2	4.3%	431,294.6	10,862,408.6	4.7%	483,667.4
One-Time Financing Sources:						
Fund Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - Revenues	10,378,741.2	4.3%	431,294.6	10,862,408.6	4.7%	483,667.4
Balance Forward	0.0	N/A	0.0	0.0	N/A	0.0
Total - Resources	10,378,741.2	4.3%	431,294.6	10,862,408.6	4.7%	483,667.4

^{3/} Adjusting for the \$(75.3) million in tax law changes in FY 2019, the base FY 2020 increase is 4.3%.

^{4/} Adjusting for the \$(6.4) million in tax law changes in FY 2020, the base FY 2021 increase is 4.5%.

BUDGET STABILIZATION FUND

Background

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. The BSF is also known as the “Rainy Day Fund.”

The Formula

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation.

The January budget documents of the JLBC and the Governor are to include estimates of the amounts to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount to be appropriated or transferred is based on calculations from the Arizona Economic Estimates Commission (EEC). This final calculation is not made until June 1 of the budget year. The EEC determines the annual growth rate of real adjusted state personal income, its trend growth rate over the past 7 years, and the calculated appropriation to or transfer from the BSF. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal.

Key features of the BSF can be summarized as follows:

- The deposit into or withdrawal from the BSF for a given fiscal year is determined by comparing the annual growth rate of real adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to its 7-year trend growth rate.
 - Real adjusted personal income in the BSF formula is defined as Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.
 - Trend growth rate is defined as the average annual growth rate of real adjusted personal income for the most recent 7 calendar years.
- If the annual growth rate exceeds the trend growth rate, the “excess” percent multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF.
 - If the annual growth rate of real adjusted personal income is both less than 2% and less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not an economic slowdown.
 - By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
 - The BSF's total balance cannot be larger than 7.0% of the current year's General Fund revenues, excluding the beginning balance.
 - In addition to the fixed income investments, the Treasurer is allowed to invest up to 25% of the BSF in equity securities (A.R.S. § 35-314.02).

Deposits/Withdrawals

FY 2016

In CY 2015, Arizona real adjusted personal income grew by 3.07%, with a trend growth rate of 0.42%. Since the “excess” growth rate in CY 2015 was 2.65%, the formula recommended a BSF deposit of \$236.8 million in FY 2016. The Legislature did not authorize the deposit.

Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay wildland fire suppression claims. When a federal agency makes payment on a 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. At the end of FY 2016, the fund had \$587,800 in outstanding wildland fire suppression claims, which were later reimbursed to the Treasurer by the State Forester.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorized the Department of Child Safety and Department of Economic Security (DES) to use up to \$35.0 million each from the BSF to provide funding for reimbursement grants in FY 2016. Chapter 117 required the BSF to be fully reimbursed by September 1, 2016. This loan authority was used only by DES, which withdrew

\$35.0 million in July 2016 and reimbursed the State Treasurer for that amount in August 2016.

FY 2017

In CY 2016, Arizona adjusted personal income increased by 3.17%, with a trend growth rate of 2.26%. Since the CY 2016 "excess" growth rate was 0.91%, the formula recommended a BSF deposit of \$84.3 million in FY 2017. The Legislature did not authorize the deposit.

At the end of FY 2017, the fund had \$2.9 million in outstanding unreimbursed wildland fire suppression claims, which were later reimbursed.

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

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will grow by 3.32% in CY 2017. Since this is 0.17% above the estimated trend growth rate of 3.15%, the formula is projected to recommend a BSF deposit of \$15.9 million in FY 2018.

As of November 2017, the fund has \$3.2 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.

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.

FY 2019

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 \$20.3 million in FY 2019.

STATUTORY CHANGES

The Baseline would, as session law, continue to notwithstand the requirements for any deposit to or withdrawals from the Budget Stabilization Fund through FY 2021.

Table 1

Budget Stabilization Fund ^{1/}
(\$ in Thousands)

	Actual FY 2016	Estimate FY 2017	Estimate FY 2018	Estimate FY 2019
General Fund Revenues				
Adjusted Revenues	\$9,265,881.5 ^{2/}	\$9,357,402.6	\$9,648,549.7	\$9,947,446.6
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	648,611.7	655,018.2	675,398.5	696,321.3
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	3.07%	3.17%	3.32%	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%	0.17%	0.21%
BSF Transactions				
Beginning BSF Balance	457,627.4	460,846.5	461,446.9	459,692.3
BSF Formula Recommendation	236,770.3	84,319.5	15,907.6	20,262.0
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)	(3,154.6)	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/}	<u>0.0</u>	<u>0.0</u>	<u>(2,600.0)</u>	<u>0.0</u>
SUBTOTAL	(587.8)	(4,402.0)	(7,254.6)	0.0
Balance	457,039.6	456,444.5	454,192.3	459,692.3
Interest Earnings & Equity Gains/Losses ^{7/}	3,806.9	5,002.4	5,500.0	6,000.0
Ending BSF Balance	\$ 460,846.5	\$ 461,446.9	\$ 459,692.3	\$ 465,692.3
Percent of Revenues	5.0%	4.9%	4.8%	4.7%

^{1/} BSF history prior to FY 2016 can be found on the JLBC website.

^{2/} Actual General Fund revenue for FY 2016, 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 appropriates \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

^{6/} Laws 2017, Chapter 305 appropriates \$2.6 million from BSF interest earnings to the Department of Education for rural assistance in FY 2018.

^{7/} Estimated interest earnings for FY 2018 and FY 2019 were 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 Officers 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 will be enrolled 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 Impacts and Total Funding

The General Fund cost associated with all retirement systems in FY 2019 is estimated to be \$218.6 million and the Total State Funds cost is \$555.8 million. *(Please see Table 1 for the total costs.)*

The employer contribution rate for the retirement systems may change each year depending on the latest actuarial valuation. Some of the retirement costs may be covered by agencies' non-appropriated funding sources. The FY 2019 Baseline does not adjust agency budgets to account for these cost increases. Based on published actuarial valuations from ASRS and PSPRS, the FY 2019 employer contribution will increase as follows:

- ASRS – A General Fund increase of \$1.7 million and a Total State Funds increase of \$7.2 million.
- PSPRS – A General Fund increase of \$1.2 million and a Total State Funds increase of \$4.2 million.
- CORP – A General Fund increase of \$26.4 million and Total State Funds increase of \$28.0 million.
- EORP and EODCRS – Because elected officials' contribution rates are fixed in statute, there would not be an automatic FY 2019 cost increase. EORP

Table 1

Arizona Public Retirement FY 2019 System Employer Cost

	FY 2019 Change 1/			FY 2019 Total Cost 2/		
	General Fund	All Other Funds 3/	Total	General Fund	All Other Funds 3/	Total
Arizona State Retirement System	\$ 1,659,100	\$ 5,565,700	\$ 7,224,800	\$ 65,258,000	\$ 204,006,200	\$ 269,264,200
Public Safety Personnel Retirement System 4/	1,159,700	3,025,400	4,185,100	27,600,400	73,560,100	101,160,500
Corrections Officer Retirement Plan 4/	26,363,600	1,588,700	27,952,300	102,469,200	4,741,400	107,210,600
Elected Officials' Retirement Plan/ Defined Contribution Retirement System	-	-	-	7,956,700	109,900	8,066,600
University Optional Retirement Plan	-	-	-	15,281,800	54,853,500	70,135,300
Grand Total	\$ 29,182,400	\$ 10,179,800	\$ 39,362,200	\$ 218,566,100	\$ 337,271,100	\$ 555,837,200

1/ Represents the cost of the change in the employer contribution rate increase for all state agencies.

2/ Represents the JLBC estimate of the total cost of the system and does not reflect any FY 2019 change in Personal Services costs.

3/ Includes both Other Appropriated Funds and Non-Appropriated Funds (including Federal Funds).

4/ "FY 2019 Change" and "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.

actuaries, however, have indicated that current contribution rates would deplete all EORP assets in 9 more years.

- UORP – Because the employer contribution rate is fixed at 7%, there is no change in the FY 2019 employer contribution rate.

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.

PSPRS

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.

The Arizona Supreme Court decision in *Hall v. Elected Officials' Retirement Plan* had a minimal impact on PSPRS, given that most plan design changes litigated in *Hall* for the PSPRS system were superseded by Proposition 124 and its related legislation.

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.

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% annually. This change is conditional on voter approval of SCR 1023 in November 2018. Due to this and other reasons, the 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 \$8.0 million and the Total State Funds cost is \$8.1 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. The employer contribution rate for EORP members goes entirely to the EORP Fund, whereas only 17.5% of the EODCRS plan employer contribution rate goes to the EORP Fund. The remaining 6% of the EODCRS plan contribution rate is deposited into the individual employees' retirement investment account.

The \$8.0 million General Fund cost consists of both employer contribution rates and an annual General Fund deposit. The fixed 23.5% EORP and EODCRS employer contributions to the EORP Fund are scheduled to continue until FY 2044. The \$5.0 million annual General Fund deposit into the EORP Fund is scheduled to continue until FY 2043.

Given the fixed contribution rate, employer costs will not increase in FY 2019.

EORP Funding Options

EORP plan actuaries estimate that given current funding levels, the closed EORP will have enough assets to pay member benefits for only the next 9 years. In order to fully fund state personnel in EORP, actuaries have estimated that the state would need to increase the employer contribution rate to EORP from 23.5% to 61.0%.

Including the \$5.0 million annual General Fund deposit, current state EORP costs with the fixed 23.5% contribution rate are \$8.1 million in FY 2019. Increasing the EORP contribution rate to 61.0% would increase state EORP costs by \$4.9 million to a total of \$13.0 million, with most of this increase (\$4.7 million) being paid from the General Fund.

EORP Litigation

A different case, called *Fields v. Elected Officials' Retirement Plan*, is currently active in the court system. Known colloquially as *Fields 2*, the Superior Court ruled that the state's funding mechanism for EORP is unconstitutional as the General Fund deposit and employer contribution rate set in statute are not sufficient to pay the actuarially projected cost of the system. Unlike the previous *Fields* case and *Hall* case, *Fields 2* only deals with issues in EORP and does not apply to any other pension plan.

The Superior Court ruled that the Legislature must address the issue but did not, as the plaintiffs have

requested, rule that the EORP must immediately implement the actuarially projected employer contribution rate. This ruling may be appealed to the Arizona Court of Appeals.

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.

Funded Status

To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. The funded status, or the amount of actuarial assets relative to the amount of liabilities, of each plan is:

- 72.4% for ASRS;
- 45.3% for PSPRS;
- 49.5% for CORP; and
- 30.7% for EORP.

The above percentages exclude the retiree health portion of the pension plan.

LONG TERM GENERAL FUND ESTIMATES

LONG TERM GENERAL FUND ESTIMATES

Summary

A.R.S. § 35-125 requires the annual General Appropriation Act to include a 3-year revenue and expenditure projection. To assist in this effort, the JLBC Staff has developed General Fund Baseline estimates through FY 2021, as shown in *Table 2*. Based on the assumptions described below, the Baseline ending balance is estimated to be a \$(13) million shortfall in FY 2020 and \$184 million surplus in FY 2021.

These estimates exclude the Budget Stabilization Fund (BSF) monies. The BSF is estimated to have a fund balance of about \$460 million by the end of FY 2019.

Given the multiple year forecast, long run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2019 through FY 2021 would change the ending balance calculations by \$635 million in the third year.

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2019 revenues, the long run estimates average 4 different forecasts. This process is described in more detail in the *General Fund Revenue* section.

The "4-sector" consensus projected an average General Fund base revenue growth of 3.6% in FY 2019, 4.3% in FY 2020 and 4.5% in FY 2021. *Table 1* includes the individual forecast components in FY 2020 and FY 2021. These growth rates reflect revenue growth prior to tax law changes and Urban Revenue Sharing.

The FY 2020 and FY 2021 forecasts include comparatively small adjustments for the effects of previously-enacted multi-year tax reductions. In FY 2020, these adjustments are projected to reduce revenue by \$(6) million relative to FY 2019. There would be a further reduction of \$(6) million in FY 2021 relative to FY 2020. The details of the tax reductions are in *Table 4* of the *General Fund Revenue* section.

General Fund revenues are projected to grow modestly from FY 2018 to FY 2019, with revenue growth partially offset by the loss of the balance forward. Base revenues will grow slightly faster through FY 2020 and FY 2021. The projected level of General Fund revenue would increase from \$9.81 billion in FY 2018 to \$9.95 billion in FY 2019, then increase to \$10.38 billion in FY 2020 and \$10.86 billion in FY 2021. The Baseline presumes that the

projected FY 2018 ending shortfall of \$(20) million and projected FY 2019 ending shortfall of \$(108) million are resolved as part of the FY 2019 budget process. The *General Fund Revenue* section also details the potential risks to the forecast.

Table 1
4-Sector Consensus Forecast Percentages

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>FY 2020</u>					
Sales Tax	4.0%	4.0%	5.2%	4.1%	4.3%
Individual Income Tax	3.7%	4.4%	5.4%	5.3%	4.7%
Corporate Income Tax	(1.4)%	2.7%	3.6%	4.2%	2.4%
Insurance Premium Tax	3.1%	1.4%	1.5%	3.8%	<u>2.5%</u>
Wgt Avg ^{1/}					4.3%
<u>FY 2021</u>					
Sales Tax	4.3%	4.8%	4.5%	4.0%	4.4%
Individual Income Tax	4.0%	5.6%	5.0%	5.2%	4.9%
Corporate Income Tax	5.3%	9.4%	4.6%	3.0%	5.5%
Insurance Premium Tax	3.3%	1.3%	1.8%	3.8%	<u>2.6%</u>
Wgt Avg ^{1/}					4.5%

^{1/} Rates include adjustments for small revenue categories.

Baseline Spending

The long term General Fund expenditures reflect the requirements of existing statutory funding formulas and other obligations. This spending is projected to increase by \$336 million in FY 2020 (3.3%) above FY 2019 and \$286 million in FY 2021 (2.8%) above FY 2020.

These spending adjustments include normal caseload growth in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

Overall spending would be \$10.39 billion in FY 2020 and \$10.68 billion in FY 2021. (*See Table 3 for the projected ongoing spending levels of agencies. Total spending by agency, including one-time spending, is displayed in Table 4.*)

In addition, the long term estimates assume the continued annual suspension of \$516 million of funding formula requirements permanently authorized in law and the continued non-funding of \$200 million in non-statutory funding formulas for building renewal. (*See Table 5.*)

Baseline Balances

Under the Baseline assumptions, there would be an FY 2020 cash shortfall of \$(13) million and an FY 2021 cash balance of \$184 million. The structural balances are projected to be \$45 million and \$212 million, respectively.

The Baseline balance estimates probably underestimate the FY 2020 shortfall and overstate the availability of funds in FY 2021 for 2 reasons:

- The Baseline eliminates \$89 million of spending that was labeled as "one-time" in the FY 2018 budget. There may be legislative interest in retaining some of this spending. If these items were funded through FY 2020 and FY 2021, the balances in those years would be lower than the Baseline estimates.
- The Baseline assumes no increase in discretionary spending, which is unlikely to occur. Any discretionary increases will make balances in FY 2020 and FY 2021 lower than the Baseline estimates.

In addition, this projection assumes that the economy does not enter a recession during this time period. If this turns out to be true, it would mean the national economy had experienced 144 months of economic expansion. The current record for longest expansion is 120 months.

Table 2

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

	<u>FY 2018 Baseline</u>	<u>FY 2019 Baseline</u>	<u>FY 2020 Baseline</u>	<u>FY 2021 Baseline</u>
REVENUES				
Ongoing Revenues	\$10,329,319,800	\$10,697,547,200	\$11,079,813,900	\$11,577,112,900
Previously Enacted Changes		(75,296,200)	(6,433,300)	(5,800,000)
Urban Revenue Sharing	(680,770,100)	(674,804,400)	(694,639,400)	(708,904,300)
Net Ongoing Revenues	<u>\$9,648,549,700</u>	<u>\$9,947,446,600</u>	<u>\$10,378,741,200</u>	<u>\$10,862,408,600</u>
One-time Financing Sources				
Balance Forward	\$150,871,000			
Moody's Settlement Fund Transfer	8,172,700			
Subtotal One-time Revenues	<u>\$159,043,700</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Revenues	\$9,807,593,400	\$9,947,446,600	\$10,378,741,200	\$10,862,408,600
EXPENDITURES				
Operating Budget Appropriations	\$9,708,061,800	\$9,999,524,300	\$10,374,753,300	\$10,691,508,400
FY 2018 Supplementals/Ex-Appropriations	(1,061,200)			
Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
Revertments	(140,682,500)	(140,682,500)	(140,682,500)	(140,682,500)
Subtotal Ongoing Expenditures	<u>\$9,666,318,100</u>	<u>\$9,958,841,800</u>	<u>\$10,334,070,800</u>	<u>\$10,650,825,900</u>
One-time Expenditures				
Capital Outlay	\$5,700,000	\$5,700,000		
Operating One-Time Spending	180,142,500	91,126,500	57,902,400	27,146,400
AHCCCS One-Time Savings	(24,130,900)			
Subtotal One-time Expenditures	<u>\$161,711,600</u>	<u>\$96,826,500</u>	<u>\$57,902,400</u>	<u>\$27,146,400</u>
Total Expenditures	\$9,828,029,700	\$10,055,668,300	\$10,391,973,200	\$10,677,972,300
Ending Balance <u>2/</u>	<u>(\$20,436,300) <u>4/</u></u>	<u>(\$108,221,700) <u>4/</u></u>	<u>(\$13,232,000)</u>	<u>\$184,436,300</u>
Structural Balance <u>3/</u>	<u>(\$17,768,400)</u>	<u>(\$11,395,200)</u>	<u>\$44,670,400</u>	<u>\$211,582,700</u>

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

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

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

4/ The projected FY 2018 and FY 2019 cash shortfalls are presumed to be solved as part of the FY 2019 budget process.

Table 3

**GENERAL FUND SPENDING BY BUDGET UNITS 1/
EXCLUDES ONE-TIME SPENDING IN INDIVIDUAL AGENCIES**

	FY 2018 Baseline	FY 2019 \$ Above FY 2018	FY 2019 Baseline	FY 2020 \$ Above FY 2019	FY 2020 Baseline	FY 2021 \$ Above FY 2020	FY 2021 Baseline
EXPENDITURES							
Operating Budget	\$10,264,500		\$10,264,500		\$10,264,500		\$10,264,500
- Department of Administration	5,000,000	(5,000,000)	860,500		860,500		860,500
- ADOA - Automation Projects Fund	860,500		125,000		125,000		125,000
- Office of Administrative Hearings	125,000		9,356,300		9,356,300		9,356,300
- African-American Affairs Commission	9,356,300		1,859,238,700	128,541,500	1,987,780,200	134,840,000	2,122,620,200
- Arizona Department of Agriculture	1,798,998,200	60,240,500	24,568,500		24,568,500		24,568,500
- AHCCCS	24,568,500		1,185,200		1,185,200		1,185,200
- Attorney General	1,185,200		384,374,800		384,374,800		384,374,800
- State Board for Charter Schools	379,374,800	5,000,000	21,800,000		21,800,000		21,800,000
- Department of Child Safety	21,800,000		56,899,900	1,084,500	57,984,400	1,248,500	59,232,900
- Commerce Authority	55,086,500	1,813,400	611,600		611,600		611,600
- Community Colleges	611,600		1,055,305,000		1,055,305,000		1,055,305,000
- Corporation Commission	1,055,305,000		6,000,500		6,000,500		6,000,500
- Department of Corrections	6,000,500		21,378,100		21,378,100		21,378,100
- County Funding	21,378,100		484,100		484,100		484,100
- Schools for the Deaf and the Blind	484,100		637,935,500	46,227,600	684,163,100	47,226,600	731,389,700
- Office of Economic Opportunity	573,551,400	64,384,100	1,142,800		1,142,800		1,142,800
- Department of Economic Security	1,142,800		4,394,604,800	174,771,900	4,569,376,700	198,099,700	4,767,476,400
- State Board of Education	4,226,403,500	168,201,300	11,195,100		11,195,100		11,195,100
- Department of Education	11,195,100		2,823,600		2,823,600		2,823,600
- Dept. of Emergency & Military Affairs	2,823,600		189,100		189,100		189,100
- Department of Environmental Quality	189,100		643,000		643,000		643,000
- Governor's Office of Equal Opportunity	643,000		952,600		952,600		952,600
- State Board of Equalization	952,600		2,153,200		2,153,200		2,153,200
- Board of Executive Clemency	2,153,200		11,250,300		11,250,300		11,250,300
- Department of Financial Institutions	11,250,300		1,779,500		1,779,500		1,779,500
- Dept. of Forestry and Fire Management	1,779,500		6,849,900		6,849,900		6,849,900
- Department of Gaming	6,849,900		1,994,000		1,994,000		1,994,000
- Office of the Governor	1,994,000		88,624,200		88,624,200		88,624,200
- Gov's Ofc of Strategic Planning and Budgeting	88,624,200	1,973,400	3,142,500		3,142,500		3,142,500
- Department of Health Services	3,142,500		824,500		824,500		824,500
- Arizona Historical Society	824,500		5,806,400		5,806,400		5,806,400
- Prescott Historical Society	811,400	(811,400)	110,690,000		110,690,000		110,690,000
- Department of Housing	5,806,400		474,600		474,600		474,600
- Department of Insurance	110,215,400	474,600	19,155,700		19,155,700		19,155,700
- Judiciary	19,155,700		12,671,600		12,671,600		12,671,600
- Department of Juvenile Corrections	12,222,500	449,100	18,546,500		18,546,500		18,546,500
- State Land Department	18,546,500	107,500	13,201,500		13,201,500		13,201,500
- Legislature	13,201,500		2,488,300		2,488,300		2,488,300
- Auditor General	2,488,300		8,215,400		8,215,400		8,215,400
- House of Representatives	8,215,400		9,408,500		9,408,500		9,408,500
- Joint Legislative Budget Committee	9,408,500		\$51,860,200	\$0	\$51,860,200	\$0	\$51,860,200
- Legislative Council	\$51,860,200	\$107,500	1,212,500		1,212,500		1,212,500
- Senate	1,212,500		124,000		124,000		124,000
SUBTOTAL - Legislature							
- State Mine Inspector	1,212,500		1,212,500		1,212,500		1,212,500
- Navigable Stream Adjudication Commission	124,000		124,000		124,000		124,000

Table 3

GENERAL FUND SPENDING BY BUDGET UNITS 1/
EXCLUDES ONE-TIME SPENDING IN INDIVIDUAL AGENCIES

	FY 2018 Baseline	FY 2019 Baseline	FY 2020 Baseline	FY 2021 Baseline
— Commission for Postsecondary Education	1,881,800	1,881,800	1,881,800	1,881,800
— Department of Public Safety	108,654,600	108,654,600	138,654,600	138,654,600
— 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	2,994,900	2,994,900	2,994,900
— Department of Revenue	30,507,700	30,507,700	30,507,700	30,507,700
— School Facilities Board	188,096,300	152,621,900	150,205,100	85,512,400
— Secretary of State	11,563,200	14,947,700	14,947,700	14,947,700
— Tax Appeals, State Board of	266,600	266,600	266,600	266,600
— Office of Tourism	7,112,000	7,112,000	7,112,000	7,112,000
— Department of Transportation	50,400	50,400	50,400	50,400
— State Treasurer	1,205,100	1,205,100	1,205,100	1,205,100
— Governor's Office on Tribal Relations	57,500	57,500	57,500	57,500
— Universities	685,130,700	712,129,800	709,649,900	709,184,400
— Department of Veterans' Services	6,054,100	6,054,100	6,054,100	6,054,100
— Department of Water Resources	13,854,200	13,854,200	13,854,200	13,854,200
— Phoenix Convention Center Payment	22,499,000	22,996,300	503,700	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
Total - Operating Budget	\$9,708,061,800	\$9,999,524,300	\$10,374,753,300	\$10,691,508,400
— Capital Outlay	5,700,000	5,700,000		
— Operating One-Time Spending	180,142,500	(89,016,000)	(5,700,000)	
— AHCCCS One-Time Savings	(24,130,900)	24,130,900	(33,224,100)	(30,756,000)
— FY 2018 Supplementals/Ex-Appropriation	(1,061,200)	1,061,200		
— Administrative Adjustments	100,000,000	100,000,000	100,000,000	100,000,000
— Reversions	(140,682,500)	(140,682,500)	(140,682,500)	(140,682,500)
Total Spending	\$9,828,029,700	\$10,055,668,300	\$10,391,973,200	\$10,677,972,300
			\$316,755,100	\$316,755,100
			(30,756,000)	(30,756,000)
			\$285,999,100	\$285,999,100

1/ Individual agency spending amounts listed above exclude "Operating One-Time Spending" and "AHCCCS One-Time Savings" amounts. These amounts for each agency are listed on page S-5.

Table 4

GENERAL FUND SPENDING BY BUDGET UNITS INCLUDING ONE-TIME SPENDING 1/

	FY 2018 Baseline w/ One-Times	FY 2019 \$ Above FY 2018 w/ One-Times	FY 2019 Baseline w/ One-Times	FY 2020 \$ Above FY 2019 w/ One-Times	FY 2020 Baseline w/ One-Times	FY 2021 \$ Above FY 2020 w/ One-Times	FY 2021 Baseline w/ One-Times
EXPENDITURES							
Operating Budget	\$10,365,300	(\$100,800)	\$10,264,500		\$10,264,500		\$10,264,500
-- Department of Administration	12,300,000	(12,300,000)	860,500		860,500		860,500
-- ADOA - Automation Projects Fund	870,900	(10,400)	125,000		125,000		125,000
-- Office of Administrative Hearings	125,800	(800)	9,356,300		9,356,300		9,356,300
-- African-American Affairs Commission	9,563,700	(207,400)	1,859,238,700	128,541,500	1,987,780,200	134,840,000	2,122,620,200
-- Arizona Department of Agriculture	1,775,264,100	83,974,600	26,068,500		26,068,500	(1,500,000)	24,568,500
-- AHCCCS	26,344,200	(275,700)	1,185,200		1,185,200		1,185,200
-- Attorney General	1,200,600	(15,400)	384,374,800		384,374,800		384,374,800
-- State Board for Charter Schools	379,790,800	4,584,000	21,800,000		21,800,000		21,800,000
-- Department of Child Safety	21,800,000		56,899,900	1,084,500	57,984,400	1,248,500	59,232,900
-- Commerce Authority	55,086,500	1,813,400	611,600		611,600		611,600
-- Community Colleges	621,500	(9,900)	1,055,305,000		1,055,305,000		1,055,305,000
-- Corporation Commission	1,067,624,800	(12,319,800)	6,000,500		6,000,500		6,000,500
-- Department of Corrections	15,650,700	(9,650,200)	21,378,100		21,378,100		21,378,100
-- County Funding	21,932,000	(553,900)	484,100		484,100		484,100
-- Schools for the Deaf and the Blind	484,100		637,935,500	46,227,600	684,163,100	47,226,600	731,389,700
-- Office of Economic Opportunity	586,110,300	51,825,200	1,142,800		1,142,800		1,142,800
-- Department of Economic Security	1,153,600	(10,800)	4,394,604,800		4,394,604,800		4,394,604,800
-- State Board of Education	4,226,958,400	167,646,400	11,195,100	174,771,900	4,569,376,700	198,099,700	4,767,476,400
-- Department of Education	11,238,300	(43,200)	2,823,600		2,823,600		2,823,600
-- Dept. of Emergency & Military Affairs	191,900	(2,800)	189,100		189,100		189,100
-- Department of Environmental Quality	646,400	(3,400)	643,000		643,000		643,000
-- Governor's Office of Equal Opportunity	963,500	(10,900)	952,600		952,600		952,600
-- State Board of Equalization	2,201,000	(47,800)	2,153,200		2,153,200		2,153,200
-- Board of Executive Clemency	11,922,500	(672,200)	11,250,300		11,250,300		11,250,300
-- Department of Financial Institutions	1,779,500		1,779,500		1,779,500		1,779,500
-- Dept. of Forestry and Fire Management	8,871,400	(2,021,500)	6,849,900		6,849,900		6,849,900
-- Department of Gaming	2,014,600	(20,600)	1,994,000		1,994,000		1,994,000
-- Office of the Governor	87,669,400	954,800	88,624,200		88,624,200		88,624,200
-- Gov's Ofc of Strategic Planning and Budgeting	3,179,800	(37,300)	3,142,500		3,142,500		3,142,500
-- Department of Health Services	840,200	(15,700)	824,500		824,500		824,500
-- Arizona Historical Society	830,000	(830,000)					
-- Prescott Historical Society	5,878,300		5,806,400		5,806,400		5,806,400
-- Department of Housing	110,718,700	(28,700)	110,690,000		110,690,000		110,690,000
-- Department of Insurance	19,549,800	(394,100)	19,155,700		19,155,700		19,155,700
-- Judiciary	12,365,900	305,700	12,671,600		12,671,600		12,671,600
-- Department of Juvenile Corrections							
-- State Land Department	18,688,800	(142,300)	18,546,500		18,546,500		18,546,500
-- Legislature	13,419,100	(217,600)	13,201,500		13,201,500		13,201,500
-- Auditor General	2,513,800	(25,500)	2,488,300		2,488,300		2,488,300
-- House of Representatives	8,278,400	(63,000)	8,215,400		8,215,400		8,215,400
-- Joint Legislative Budget Committee	9,548,100	(139,600)	9,408,500		9,408,500		9,408,500
-- Legislative Council	\$52,448,200	(\$588,000)	\$51,860,200	\$0	\$51,860,200	\$0	\$51,860,200
-- Senate	1,226,800	(14,300)	1,212,500		1,212,500		1,212,500
SUBTOTAL - Legislature	125,500	(1,500)	124,000		124,000		124,000
-- State Mine Inspector	1,881,800		1,881,800		1,881,800		1,881,800
-- Navigable Stream Adjudication Commission	109,614,200	(959,600)	108,654,600	30,000,000	138,654,600		138,654,600
-- Commission for Postsecondary Education							
-- Department of Public Safety							

Table 4

GENERAL FUND SPENDING BY BUDGET UNITS INCLUDING ONE-TIME SPENDING 1/

	FY 2018 Baseline w/ One-Times	FY 2019 \$ Above FY 2018 w/ One-Times	FY 2019 Baseline w/ One-Times	FY 2020 \$ Above FY 2019 w/ One-Times	FY 2020 Baseline w/ One-Times	FY 2021 \$ Above FY 2020 w/ One-Times	FY 2021 Baseline w/ One-Times
- Public Safety Personnel Retirement System	6,000,000		6,000,000		5,000,000		5,000,000
- Radiation Regulatory Agency	787,600	(787,600)					
- State Real Estate Department	3,028,000	(33,100)	2,994,900		2,994,900		2,994,900
- Department of Revenue	31,291,300	(783,600)	30,507,700		30,507,700		30,507,700
- School Facilities Board	292,286,600	(52,038,200)	240,248,400	(35,640,900)	204,607,500	(91,948,700)	112,658,800
- Secretary of State	12,190,100	2,757,600	14,947,700		14,947,700		14,947,700
- Tax Appeals, State Board of	268,300	(1,700)	266,600		266,600		266,600
- Office of Tourism	7,112,000		7,112,000		7,112,000		7,112,000
- Department of Transportation	50,500	(100)	50,400		50,400		50,400
- State Treasurer	1,205,100		1,205,100		1,205,100		1,205,100
- Governor's Office on Tribal Relations	58,000	(500)	57,500		57,500		57,500
- Universities	704,819,700	7,310,100	712,129,800	(2,479,900)	709,649,900	(465,500)	709,184,400
- Department of Veterans' Services	6,115,800	(61,700)	6,054,100		6,054,100		6,054,100
- Department of Water Resources	16,001,900	(147,700)	15,854,200		15,854,200	(2,000,000)	13,854,200
- Phoenix Convention Center Payment	22,499,000	497,300	22,996,300	503,700	23,500,000	497,900	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	(3,100)	84,112,000	(3,500)	84,108,500	600	84,109,100
- Unallocated Adjustments	15,800	(15,800)					
Total - Operating Budget	\$9,864,073,400	\$226,577,400	\$10,090,650,800	\$342,004,900	\$10,432,655,700	\$285,999,100	\$10,718,654,800
- Capital Outlay	5,700,000		5,700,000				
- FY 2018 Supplementals/Ex-Appropriation	(1,061,200)	1,061,200		(5,700,000)			
- Administrative Adjustments	100,000,000		100,000,000		100,000,000		100,000,000
- Revertments	(140,682,500)		(140,682,500)		(140,682,500)		(140,682,500)
Total Spending	\$9,828,029,700	\$227,638,600	\$10,055,668,300	\$336,304,900	\$10,391,973,200	\$285,999,100	\$10,677,972,300

1/ Individual agency spending amounts listed above include "Operating One-Time Spending" and "AHCCCS One-Time Savings" amounts.

Table 5

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 ^{2/}
Department of Education - District Additional Assistance	352,442,700 ^{3/}
Department of Education - Charter School Additional Assistance	18,656,000 ^{4/}
Department of Education - Large JTEDs at 95.5%	1,660,800 ^{5/}
Department of Environmental Quality - Water Quality Assurance Revolving Fund (WQARF)	12,176,400 ^{6/}
Department of Health Services - Restoration to Competency (RTC)	900,000 ^{7/}
Department of Health Services - Sexually Violent Persons (SVP)	2,988,100 ^{8/}
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	89,398,700 ^{9/}
Universities - Arizona Financial Aid Trust	<u>23,738,400 ^{10/ 11/}</u>
 Total - FY 2019 Statutory Funding Formula Suspensions	 \$ 516,132,900
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 34,944,000 ^{11/}
Department of Corrections - Building Renewal	16,819,000 ^{11/}
Universities - Building Renewal	<u>148,400,000 ^{11/}</u>
 Total - FY 2019 Non-Statutory Funding Formula Suspensions	 \$ 200,163,000

- ^{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 84.5% of the formula requirement that is unfunded. Excludes approximately \$29,300,000 suspended in non-state aid districts, which are not funded through the state budget.
- ^{4/} Represents 5.4% of the formula requirement that is unfunded.
- ^{5/} Estimate based on FY 2018 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).
- ^{6/} Represents the difference between the General Fund requirement of \$15,000,000 and the General Fund appropriation of \$2,823,600. In lieu of additional General Fund, the FY 2019 Baseline also includes \$2,100,000 from the Air Quality Fund, \$1,400,000 from the Emissions Inspection Fund, and \$676,400 from the Recycling Fund for WQARF. As a result, WQARF is receiving \$7,000,000 in total appropriated funds in FY 2019, compared to the statutory allocation of \$15,000,000.
- ^{7/} Excludes costs that counties incur to treat RTC patients in alternative (non-Arizona State Hospital) facilities.
- ^{8/} Reflects estimate of remaining costs to counties for SVP care.
- ^{9/} This amount is in addition to the \$10,000,000 allocated to DPS from the HURF pursuant to A.R.S. § 28-6537.
- ^{10/} 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 Baseline assumes the continuation of \$10,041,200 in General Fund support.
- ^{11/} Based on agency estimates.

TECHNICAL BUDGET ASSUMPTIONS

TECHNICAL BUDGET ASSUMPTIONS

Baseline

This book reflects General Fund baseline revenue and spending estimates. The revenue projections are based on a consensus economic forecast while the spending estimates represent currently-funded formula requirements and other obligations. The Baseline does not represent a budget proposal. By providing an estimate of available resources after statutory requirements, however, the Baseline will help members of the Legislature evaluate the availability of resources for these discretionary adjustments. As such, the Baseline is only a starting point for discussion on the FY 2019 budget.

FY 2019 Budget

A.R.S. § 35-101 specifies 15 state agencies as “annual budget units” receiving one annual appropriation; all other agencies are “biennial budget units” receiving biennial appropriations with the dollar amounts itemized for each fiscal year. The biennial period starts with the even-numbered year. Since the FY 2018 budget suspended biennial budgeting and permitted all agencies to only submit a FY 2019 budget request, the Baseline includes only FY 2019 funding for all budget units. The Baseline also includes supplemental FY 2018 funding for selected budget units. All FY 2019 changes are referenced to the original FY 2018 appropriated amount.

Changes from Prior Year

The Baseline includes adjustments for one-time appropriations, annualization of any items funded for a partial year, and funding formula requirements.

The individual agency descriptions in this volume provide further narrative detail on these changes. In addition, the book provides the line item detail for individual agency budgets. The major technical issues pertaining to each of these line items are described below.

The individual agency descriptions also include the following years of budget data:

- *FY 2017 Actual* - This dollar amount represents the FY 2017 expenditures as reported by the agency. The amount may include administrative adjustments, or payments for obligations incurred in FY 2016 but for which the state was not billed until FY 2017.
- *FY 2018 Estimate* - This dollar amount represents the FY 2018 appropriations as of the end of the 53rd Legislature, 1st Regular Session.

- *FY 2019 Baseline* - This dollar amount represents the FY 2019 Baseline spending estimate.

Each budget summary includes the level of non-appropriated and Federal Funds available to the agency. The detail for these funds can be found in the “Summary of Funds” section at the end of each individual agency’s narrative pages.

Statewide and Standard Changes

Personal Services - This category includes salaries paid to state employees. The Baseline does not include a state employee pay adjustment for FY 2019.

ERE Rates - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2018 to FY 2019 in the Baseline.

Medical and Dental Insurance - The Baseline includes no changes to agency budgets for medical and dental insurance costs.

Total FY 2019 ongoing medical and dental insurance costs are estimated to be approximately \$947.4 million in total funds, a combination of estimated ongoing costs of \$919.8 million plus \$49.5 million of new FY 2019 costs offset by \$(21.9) million of annualization savings from plan changes and co-pay increases effective on January 1, 2018.

Total revenues into the fund in FY 2019 are estimated to be \$843.5 million, a combination of \$827.4 million in ongoing revenues plus \$16.1 million of new receipts, including \$7.4 million from the annualization of employee premium increases. The Baseline does not continue the FY 2018 one-time increase in employer premiums, which generated an estimated \$76.4 million in total funds.

When combined with an estimated FY 2019 beginning balance of \$136.8 million, the FY 2019 ending balance is estimated to be \$32.9 million. *(Please see the HITF discussions in the Arizona Department of Administration (ADOA) narrative for further details on HITF balances.)*

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)

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2018 rate. The government information technology review function in the ADOA budget is funded from an assessment on the payroll of all state agencies except the Universities.

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 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.

Attorney General Legal Services - \$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.)*

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 2018 and FY 2019.

Federal Insurance Contributions Act (FICA) - Effective January 1, 2018, Social Security employer taxes are paid at a rate of 6.20% up to \$128,700, an increase from the previous maximum of \$127,200. The rate is unchanged. The Baseline does not adjust agency budgets for this change.

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.

Retirement - Most FY 2019 rates as determined by the state's retirement systems have changed from the FY 2018 rates. The total contribution from ASRS employees and employers combined will be 23.28%, an increase from the FY 2018 rate of 22.68%; both employers and employees will see their rates increase in FY 2019 to 11.64% from 11.34% in FY 2018. These rates exclude disability insurance.

Employer contribution rates for the Public Safety Personnel Retirement Plan and the Corrections Officers Retirement Plan also changed pursuant to changes set in statute. The Baseline does not adjust agency budgets for changes in retirement rates.

Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.

Disability Insurance - For Arizona State Retirement Systems (ASRS) employees, the employer will pay 0.16% of Personal Services for disability insurance, unchanged from the FY 2018 rate. The employee rate will also remain at 0.16%. Rates for disability insurance for PSPRS and CORP employers have not yet been finalized. The PSPRS rate is 2.33% in FY 2018; the CORP rate is 0.28% in FY 2018. The Baseline does not adjust agency budgets for changes in disability insurance rates.

Risk Management - Individual agency budgets' Other Operating Expenditures include funding for Risk Management charges billed by ADOA. The billings vary by individual agency and are unchanged from the budgeted FY 2018 rates.

Rent - Individual agency budgets' Other Operating Expenditures include monies to pay rent for state-owned or lease-purchase space, as well as for privately-owned space.

ADOA charges \$13.08 per square foot for all state agencies occupying state-owned space and \$4.74 per square foot for state-owned storage space in FY 2018. These rates are based upon usable square feet. The Baseline assumes no changes to these rates for FY 2019.

Please see the Capital Outlay - ADOA Building System narrative for more details.

The Baseline does not address increases in rent for privately-owned space.

Full-Time Equivalent (FTE) Positions

Each agency section in this book includes the proposed FY 2019 ceiling of Full-Time Equivalent (FTE) Positions for the agency, along with the FTE Position ceiling for FY 2017 and FY 2018. Any changes from the prior year total are noted in the agency narrative. The number of FTE Positions reflects personnel funded from both Personal Services and Special Line Items.

Format

Each agency section in this book includes the proposed agency budget format. Any changes from the prior year format are noted. The format governs how an agency's appropriation will appear in the General Appropriation Act. The most common budget formats are as follows:

- Lump Sum by Agency
- Lump Sum by Program
- Modified Lump Sum by Agency
- Detailed Line Item by Agency

A less detailed format will provide an agency with more discretion in implementing the budget at the expense of legislative oversight for that agency. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds to a purpose different from that originally intended by the Legislature.

Details on each of these common formats are below:

Lump Sum by Agency - The appropriation consists of a single dollar amount, thereby allowing the agency to shift funds among line items and programs without further legislative review. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Lump sum appropriation	\$100,000

Within this format, the Legislature will need to determine whether Special Line Items (funds generally granted to entities or individuals outside of state government, or which merit special attention) will be included in the Lump Sum or listed separately. If Special Line Items are listed separately, transfers to or from those lines must receive prior ADOA approval.

Lump Sum by Program - The appropriation consists of a single dollar amount for each agency program. Agencies must receive ADOA approval prior to shifting monies from

one program to another. Any Special Line Items would be listed under the program with which they are associated. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Program A	\$30,000
Program B	30,000
Program C	<u>40,000</u>
Total Appropriations - Agency X	\$100,000

Modified Lump Sum - The appropriation consists of at least 3 lines: Personal Services, Employee Related Expenditures, and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, an agency must seek the recommendation of the Joint Legislative Budget Committee and approval by ADOA before moving any funds into or out of the Personal Services or ERE line items (A.R.S. § 35-173(e)). In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
All Other Operating Expenditures	<u>25,000</u>
Total Appropriations - Agency X	\$100,000

Detailed Line Item - The appropriation consists of each line item listed in this book, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenditures, and Equipment. Any Special Line Items would be listed separately. While the same rules govern Personal Services/ERE transfers as noted in the Modified Lump Sum description, the detailed line item appropriation requires the agency to seek ADOA approval before transferring monies between any other line items.

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
Professional & Outside Services	3,000
Travel - In State	7,500
Travel - Out of State	2,500
Other Operating Expenditures	5,000
Equipment	2,000
Local Grants	<u>5,000</u>
Total Appropriations - Agency X	\$100,000

Footnotes

The individual agency sections of this book include proposed footnotes, which are narrative statements in the General Appropriation Act that establish conditions for expenditures, reporting requirements, and legislative intent. A footnote, however, cannot be used to modify an existing program's authorizing law. Footnotes are classified into one of the following categories:

- *Standard Footnotes*
- *New Footnotes*
- *Deletion of Prior Year Footnotes*

Please see the Major Footnote Changes section for a listing of major footnote changes from FY 2018.

Statewide Footnotes

In addition to individual agency footnotes, the Baseline would include several footnotes applying to statewide issues to the General Appropriation Act. All the following footnotes are unchanged from FY 2018 unless noted.

Expenditure Reporting - It is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years.

FTE Position Reporting - The FTE Positions in the General Appropriation Act are subject to appropriation. The ADOA Director shall compile an FTE Position utilization report for FY 2019 for submission to the JLBC Director by October 1, 2019. This report shall include both appropriated and non-appropriated positions. The Universities are exempt from the ADOA report but are to report in a comparable manner. In addition, each agency shall 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.

Transfer Authority - ADOA shall provide a monthly report to JLBC Staff on agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements - ADOA shall provide to the JLBC a preliminary estimate of the FY 2018 General Fund ending balance by September 15, 2018. The 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.

Long-Term Budget Estimates - A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are to be based on existing statutory funding requirements. A.R.S. § 35-125 requires the Legislature to discuss the estimates in a public hearing before the adoption of the General Appropriation Act. *(Please see the Long-Term General Fund Estimates section for details on the FY 2019 - FY 2021 revenue and expenditure estimates.)*

Non-Lapsing Appropriations - The General Appropriation Act will designate certain appropriations with "**," meaning that the appropriation is exempt from lapsing.

Expenditure Authority - For the purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

JLBC Review - For the purposes of the General Appropriation Act, "review by the Joint Legislative Budget Committee" means a review by a vote of a majority of a quorum of the members.

Statutory Changes

The individual agency sections of this book include proposed statutory changes related to the budget. These changes will be introduced in Budget Reconciliation Bills (BRBs). *(Please see the FY 2019 Budget Reconciliation Bill Provisions section for a complete listing of proposed statutory changes.)*

In addition to agency-specific statutory changes, the Baseline would, as session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services. The Baseline would also, as session law, continue to require that all agencies only submit annual budgets for FY 2020.

Other Issues

This section may also include other information of general interest, including FY 2018 supplementals.

Statewide Expenditure Adjustments

In addition to changes in individual agency budgets, the Baseline includes 2 "balance sheet" expenditure items not discussed elsewhere: Administrative Adjustments, Revertments, and Statutory Revertments.

Administrative Adjustments - The Baseline assumes that state agencies will have expenditures totaling \$100,000,000 in FY 2018 for FY 2017 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2017, but for which the state was unbilled until FY 2018. An agency's administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$100,000,000 is unchanged from the originally-budgeted FY 2018 total. Most of the unspent reversionments are in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

In addition to the FY 2018 figure, the Baseline assumes a FY 2019 administrative adjustment total of \$100,000,000, unchanged from the revised FY 2018 total. The FY 2019 amount reflects 71% of prior-year reversionments (*see Reversionments discussion below*).

Reversionments - The Baseline assumes that state agencies will revert \$(140,682,500) of FY 2018 appropriations back to the General Fund because the agencies will not spend their entire appropriation. Agencies will be permitted to make administrative adjustments totaling no more than this amount in FY 2019. This amount is unchanged from the originally-budgeted FY 2018 total of \$(140,682,500).

In addition to the FY 2018 estimate, the Baseline also assumes a FY 2019 reversionment total of \$(140,682,500), unchanged from the FY 2018 total.

***JLBC STAFF
AND
AGENCY DIRECTORY LISTINGS***

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of January 12, 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	Craig Brown [Director]	602-542-1500
Administrative Hearings, Office of	Ben Murphy	Greg Hanchett [Interim Director]	602-542-9830
African-American Affairs, Arizona Commission of	Ben Murphy	Cloves Campbell [Executive Director]	602-542-5484
Agriculture, Arizona Department of	Henry Furtick	Mark Killian [Director]	602-542-5729
Arizona Health Care Cost Containment System	Jon Stall/Patrick Moran	Thomas J. Betlach [Director]	602-417-4111
Arizona State University	Matt Beienburg	Michael Crow, Ph.D. [President]	480-965-8972
Arts, Arizona Commission on the	Morgan Dorcheus	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	Debra K. Davenport [Auditor General]	602-553-0333
Automobile Theft Authority	Geoff 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	Geoff 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	Geoff Paulsen	Honorable Samuel Anderson Thumma [Chief Judge]	602-452-6790
Court of Appeals, Division II	Geoff 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	Paul Shannon [Director]	602-771-0478
Economic Security, Department of	Chris Gustafson/ Patrick Moran	Michael Traylor [Director]	602-542-5757
Education, State Board of	Matt Beienburg	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] William L. Ponder [Interim 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] Leslie Hess [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 [Interim 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] Lori D. Scott [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] Jenna Jones [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] Dale Sams [Interim 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 Geoff 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
Radiation Regulatory Agency Real Estate Department, State Regents, Arizona Board of Residential Utility Consumer Office Respiratory Care Examiners, Board of	Henry Furtick Sam Beres Matt Beienburg Jeremy Gunderson Steve Grunig	Brian Goretzki [Acting Director] Judy Lowe [Commissioner] Eileen Klein [President] David Tenney [Director] Jack Confer [Director]	602-255-4840 602-771-7799 602-229-2500 602-364-4835 602-542-5995
Retirement System, Arizona State Revenue, Department of School Facilities Board Secretary of State, Department of State Senate	Josh Hope Jeremy Gunderson Rebecca Perrera Micaela Larkin Steve Grunig	Paul Matson [Director] David Briant [Director] Paul Bakalis [Director] Honorable Michele Reagan [Secretary of State] Honorable Steve Yarbrough [President of the Senate]	602-240-2000 602-716-6090 602-542-6504 602-542-4285 602-926-4371
Superior Court Supreme Court Tax Appeals, State Board of Technical Registration, State Board of Tourism, Office of	Geoff Paulsen Geoff Paulsen Jeremy Gunderson Henry Furtick Henry Furtick	David K. Byers [Director] Scott Bales [Chief Justice] Karen Rice-Brogdon [Chairperson] Melissa Cornelius [Executive Director] Debbie Johnson [Director]	602-452-3301 602-452-3534 602-364-1102 602-364-4930 602-364-3717

<u>AGENCY/DEPARTMENT/BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Transportation, Department of Treasurer, State Tribal Relations, Governor's Office on University of Arizona Veterans' Services, Department of	Ben Murphy Ben Murphy Ben Murphy Sam Beres Morgan Dorcheus	John Halikowski [Director] Honorable Jeff DeWit [State Treasurer] Kristine FireThunder [Executive Director] Robert Robbins, M.D. [President] Colonel Wanda Wright [Director]	602-712-7227 602-542-7800 602-542-4421 520-621-5511 602-255-3373
Veterinary Medical Examining Board, Arizona State Water Resources, Department of	Steve Grunig Micaela Larkin	Victoria Whitmore [Executive Director] Thomas Buschatzke [Director]	602-542-8150 602-771-1301
<u>OTHER ASSIGNMENTS</u>			
Capital Review Economic and Revenue Forecast	Jack Brown Hans Olofsson Jack Brown Jon Stall		
Federal/Non-Appropriated Funds Fiscal Note Manager	Stefan Shepherd Stefan Shepherd		

[] Denotes Title for Information Purposes

**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